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IN THIS ISSUE

**HEINRICH
PESCH**

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Richard E. Mulcahy, S.J., special editor

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HEINRICH PESCH, S. J.

1854 — 1926

RICHARD E. MULCAHY, S.J.

Special Editor

THE articles in this Pesch number will be hard going in spots for many of our readers. Nevertheless, the greatness of Father Pesch's contribution to socio-economic thought, notably through the papal encyclical, *Quadragesimo Anno*, which his ideas influenced, compels us to honor him on the 25th anniversary of his death, April 1, 1926.

The more we consider this set of articles, the more we realize that a considerable body of reputable economic writing is in accord with the thought of Pesch. To a limited extent this is a matter of direct influence. However, it is more a matter of commonsense observation and analysis leading others to much the same conclusions Pesch reached.

For Pesch never lost sight of the obvious fact that the economy was for man. Hence, he was confident that economic science would always reach broader and sounder conclusions if it kept its focus firmly fixed upon what was, for him, the proper object of the science: man—at once *social* and *personal*—at work.

That is one of the triumphs of Pesch: his philosophy enabled him to study man in economic action and to derive from his study scientific conclusions which, while they are economic abstractions, report human phenomena as they are. Limited neither by the rationality of non-existent economic man nor by the irrationality of Kantian imperatives, he constructed a science which took account of the personal and social aspects of man's economic life.

Franz Mueller gives us a picture of the mature scholar, learned, yet gracious and humorous, who never forgot that he was a cobbler's son. Born at Cologne in 1854, he never lost his Rhenish graciousness. He and his two brothers, Christian and Tilmann, each attained international fame, in economics, theology and philosophy, respectively. Heinrich studied law at Bonn before entering the Society of Jesus in 1876. In addition to his legal and ecclesiastical studies, Pesch read widely in economics and spent three years at Berlin under Wagner, Schmoller and Sering.

As an economist Pesch made few original contributions. His task was rather to organize and coordinate, to stand upon the shoulders of many centuries and many disciplines, to achieve a synthesis. His contribution to the

theory of interest, which Father Nell-Breuning discusses, is commonplace today, but was a step forward in the days in which he developed it.

Both Professor Briefs and Father Gundlach review the controversies in progress during these years and both show the "third way" which Pesch developed mid-way between the opposing extremes. Briefs' article concerns itself with economics; Gundlach's, with the underlying philosophies. Pesch saw society as a solidarity of persons, not as a jungle or a mass; he saw the economy as a collaborative action, not as a war or a ferment.

This collaborative action was made up of the free, unfettered efforts of free, autonomous men, as Father Mulcahy points out. Freedom is an essential instrument in Pesch's thought, one that has play in every phase of economic action. But it is always an instrument, never a goal or a god.

Pesch's solidarism will gratify neither individualists nor collectivists, but it is an eminently sane description of the mutual and reciprocal flow from individual to society and from society to individual. That is what makes human community. And it can be only in such human community that man, the individual, will achieve the fullness of his personality.

That, in the last analysis, is the purpose of society, and Father Yenni shows that, in the thought of Pesch, economic society has its unique and specific goal, just as have all other segments of social life. The economy, composed of countless firms and innumerable actions, is, withal, a unified thing. Its purpose is to provide men with goods and services they need and want for a full, humane life. This definitely does not mean, as both Yenni and Mulcahy insist, an end to a market economy, to free competition, to free choice. But it emphatically does mean that other criteria than those of profit and power alone should guide and control economic actions.

Because he respects the dignity of man, Pesch places the prime responsibility for such control within each man. Guided by reason and will, inspired by self-respect, respect for others, reverence for God, man tempers his self-seeking with consideration for other objectives, knowing that the law of the jungle can achieve neither justice nor, ultimately, plenty.

To aid man—and when he runs amuck, to curb him—some control is vested in social groups and in the government. But it would be to misread Pesch to imagine that the primary purpose of the social groups he envisions is to serve as policemen. They are, above all, what that name implies, *social* groups, intended to foster social action—and the economy is *par excellence* a social action. Pesch believed that men desire to mean something for others—to have a social function. Around this social function—trade, profession, industry—men could group themselves, pool their resources, complement their individual contributions by the organized thinking, planning and wrestling-with-problems of the whole group. That would be social order, dynamic and fruitful, but, above all, human.

THE EDITORS.

Professor Mueller, who is a prominent exponent of Peschian thought, recalls his pleasant student associations with the great German economist.

I KNEW HEINRICH PESCH

The Formative Influence of a Human Scholar

Franz H. Mueller

College of St. Thomas, St. Paul, Minn.

MY THOUGHTS wander back—28, 30 years. At that time I was a student at the Berlin School of Commerce. The aftermath of the first World War was still imprinted upon the German capital. People in threadbare, shabby clothes. Many undernourished and in poor health. Railroad equipment run down. Certain articles of food still scarce. Inflation. Strikes. Radicalism. I was working part-time in the *Deutsche Bank*. Each day I stopped in for lunch at a soup kitchen which the Red Cross had established for students in the former castle of William II near the University.

Signs of Revival

Yet everything was not all dreary and dismal. There were signs of recovery. Not merely of a return to normal; more than that. Good books were beginning to appear. Large segments of the young generation manifested a determination to overthrow what they considered the bourgeois "rules of the game," to eliminate superficial and dishonest social conventions, smoking, drinking, "unethical" (non-functional) architecture, furniture, dress. They got away from the drabness of the city whenever they could. They went hiking. Folk dancing. Singing the *lansquenets* songs and folk songs of old. Sitting around the camp fire discussing pacifism, the return to the land.

The Catholics in the youth move-

ment were taking the lead in the liturgical revival. The growing interest in the Community Mass, in community singing and the like reflected the rise of a new community-mindedness opposed to the *laissez-faire* mentality and rugged individualism of the pre-war generation. There was an ardent interest among the youth of all creeds and all political convictions in the social question and a practically unanimous rejection of economic liberalism and capitalism.

* * *

This was the situation when I began my "pilgrimages" to Father Heinrich Pesch. I had been impressed by the radicalism of the socialist party whose program seemed indeed to go to the roots of the prevailing social evils. It looked to me as if there were no socioeconomic doctrine as coherent and consistent as the Marxian. The program of the Christian Center Party by comparison seemed to be a mere compromise, trying to avoid clear-cut decisions.

At the same time I could not get rid of the notion that there was something basically wrong with the socialist creed. Too many—in fact almost all—of the Marxians were unbelievers. This could not be entirely explained by a failure on the part of Christians to understand the misery of the proletariat and to do something about it. There was, for instance, Father Wil-

helm Hohoff, an erudite Catholic economist, who strove hard to bring about some kind of *rapprochement* between socialism and Christianity.

I was intrigued by his attempt to prove that although the Marxian materialistic philosophy of history was incompatible with the Catholic creed, Marx's critical analysis of capital and capitalism was in full agreement with the economic teachings of the great scholastics. However, the only notable effect of Dr. Hohoff's endeavors was the famous answer given by August Bebel, one of the leading German socialists of his day, viz., that "Christianity and Socialism are as opposed as fire and water." I treasured an encouraging letter which this scholarly priest had written to me shortly before his death—yet I was not so sure whether it was really possible to separate Marx's economics from his historical determinism.

Pesch Excludes Marxism

So I kept on searching, going through the literature of Catholic social thinkers, looking for a satisfactory answer to the social problems that puzzled my young mind. One day I came across a pamphlet by Father Heinrich Pesch, S.J., entitled *Nicht kommunistischer, sondern christlicher Sozialismus*, (Berlin, 1919), which made it quite plain that the solution could not possibly be Marxism even with its anti-religious fangs removed.

Yet the author did not hesitate to point out in very forceful language that individualistic capitalism was hardly less opposed to Catholic social principles. It warmed my heart to read statements like these: Profit-seeking is not merely an occasional excess but "the normal thing in capitalist economic life." Under individualistic capitalism,

supplying the people with external goods has changed from being an end of the national economy to being merely a means for acquisition . . . The business

end of the capitalist enterprise now dominates the national economic process . . . Everything is made subservient to the interest of capital, and, indeed, progressively to the interest of financial capital . . . Capitalism has played itself out.¹ It is irretrievably lost. A new epoch is beginning, in which the world will be ruled no longer by propertied men through the power of their possessions, but by honest men devoted to work through their proficiency and the value of their service . . . We agree with Marxian socialism that the future no longer belongs to the economic license of individualistic capitalism. However, neither will it belong to the compulsory economic system of communism, but to a truly socialized national economy, i.e., regulated in accordance with its end . . . which is the satisfaction of the entire national community in accordance with the prevailing level of civilization. (*Op. cit.* pp. 18-19)

Seeks New Social Order

In another pamphlet, *Neubau der Gesellschaft (Rebuilding Society)*, Freiburg i. B., 1919, also published in the days of the German civil war, after the collapse of the Hohenzollern monarchy, Pesch wrote that it is

the deep-seated suspicion towards Church and Christianity which bars our way to the soul of the people. They regard us as representatives of capitalist interests, as defenders of the capitalist economic system. This suspicion, which is entirely unfounded, must be combated forcefully, frankly and sincerely. In our programs we must also clearly define our position against capitalism. We must not merely accept the transition to a new economic order; we must demand it; we must accomplish it; we must seize the initiative; we must acknowledge that the present rise of the lower strata of the population is the fulfillment of our ardent wishes and the inspiring goal of our own political and social action . . . We cannot be satisfied with merely patching up the hitherto prevailing capitalistic economic order, bringing about relief for the working class through protective labor legislation, social insurance and the like. Surface repair certainly has had its great merits: today more is involved, viz., work on a fundamental scale, the

¹ Similarly in H. Pesch, S.J., *Sozialisierung*, Freiburg i.B., 1919, pp. 3 and 9.

beginning of a new epoch. This complete break with the capitalist system is the *sine qua non* not only for overcoming the distrust of socialist workers but also for preventing a paralyzing doubt from rising in the minds of Christian workers. (*Op. cit.*, pp. 7 f.)

Needless to say, Father Pesch rejected the socialist identification of capitalism with the institution of private property and with free enterprise. But he also objected to the notion that the essence of capitalism consists merely in the extensive use of capital goods (produced means of production). "Capitalism," he said, "is control of the national economy through the unrestrained and uninhibited acquisitiveness of the owners of capital."² Catholics cannot but agree that the idea of unrestricted liberty, typical of economic individualism, as well as the idea of profit as an end in itself, (*finis ultimus*) cannot be reconciled with the natural moral law, much less with the supernatural ethics of Christianity.³ Yet there are many who will deny that the American economic system is "capitalistic" in this sense.

Attacks Liberalism, Too

Be this as it may, the sharp and severe criticism which Pesch levels at economic liberalism and at what Tawney called the "acquisitive" society must be understood in the light of the political situation prevailing in Europe after the defeat of the Central Powers and the abdication of the Kaiser, particularly of the attempt of Bavarian, Hungarian and other communists to carry the Soviet system further westward. I for one felt deeply relieved by these coura-

geous and straightforward statements of a learned member of the Society of Jesus.

I tried to get hold of whatever Father Pesch had written. I was enthusiastic enough to copy word for word a long and profound article by him on the relationship of private enterprise and state socialism, which formed part of a composite volume, for I did not have the means to buy the book. But when I came across the *Lehrbuch*, i.e., Pesch's textbook of economics, consisting of many volumes, I was stumped. I felt that as a Catholic student of economics I had to have these volumes. Copying the hundreds and thousands of pages was, of course, out of the question. Yet the books were beyond the reach of my pocketbook. I mustered enough courage to write a letter to Father Pesch, asking for a gift copy.

Visits Scholar

This, if I remember correctly, was the beginning of my visits to this gracious scholar. For Pesch, who was ready to give me a copy of the second volume, the third edition of which had just appeared, instead of mailing it to me, asked me to come and see him. I was delighted to learn that the famous economist lived in a southern suburb of Berlin. As a grade-school boy I had often hiked past the huge Good Shepherd convent in Marienfelde at the outskirts of the German capital, without any idea that it harbored a man who, a few years hence, would become a fatherly friend to me.

Marienfelde was a partly industrialized rural community with some 4,000 inhabitants. There the cloistered Sisters of Our Lady of Charity—some 82 of them—conducted, on 34 acres of land, a large reformatory for the reclamation of about 360 prostitutes and unmarried mothers. The name Marienfelde, which is somewhat surprising in an otherwise predominantly Protestant

² H. Pesch, S.J., *Ethik und Volkswirtschaft*, Freiburg i.B., 1918, p. 142.

³ In an article "More Freedom of Enterprise but no Laissez-Faire," *Stimmen der Zeit*, May, 1918, p. 130, H. Pesch stated: "money-making is the controlling objective of the capitalistic system." Cf. also O. v. Nell-Breuning, S.J., *Börsen-moral*, Freiburg i.B., 1928, pp. 19-22.

region, may have been given to this place by the Order of the Knights Templar or the White-Cross Knights of St. John, who, in the 13th and 14th centuries, had settled in nearby Tempelhof.

Atmosphere of Study

Father Pesch, chaplain to the sisters and a true pastor of souls to the inmates had his study on the second story, near the main entrance to the star-shaped set of buildings which had a large chapel as their common center. I still remember the awe-inspiring sight of that room, every wall of which was covered with books, the shelves reaching to the very ceiling. One shelf was for magazines only. It seemed that most of the chairs and the desk were covered with books, review copies, reprints, periodicals and veritable towers of manuscripts.

Father Pesch typed all his manuscripts himself—which was not a common thing in Germany in those days. One need only remember that his *Lehrbuch* alone consists of 4000 large pages, many of them in small print, to realize the physical toil involved in this work. And Father Pesch was an ailing man. On his desk there always stood a vaporizer. Year after year he had to spend some time in a spa to nurse his sick heart and build up his strength. Yet I never saw him discouraged or discontented. On the contrary, what impressed his visitors most was the beautiful synthesis of patriarchal dignity, natural happiness and open-mindedness which he represented.

Cordial Welcome

His deeply-anchored cheerfulness was comforting to us in those distressing times. Whenever I dropped in for a visit, he offered me his snuff-box which I rather dreaded but found difficult to refuse when it was offered by the good Father smiling behind his long gray beard. Sometimes I would take

along my friends from the Catholic students fraternity, "Unitas," of which Father Pesch himself was a member.

Pesch did not regard us as intruders who interrupted his work. "Well," he admitted once, "after one has been at the grind all day long, these visits are a diversion and a real treat." Then he would joke and converse pleasantly.

Sense of Humor

I remember him saying: "Boys, never lose your sense of humor; lack of humor almost always suggests that something is wrong with a person's religious life. I still remember my student days in Bonn, when my friend Am Zehnhoff (who later became minister of justice in Prussia) and I turned off the street-lamps in that university-city and then went back over our route, climbing up again on some lamp-posts to relight at least a few for the sake of compensative justice." Jokingly he told us that he considered himself still quite capable of filling worthily a professorial chair for Rhenish humor.

Though he was certainly a great scholar who loved to discuss questions of principle and theory, Father Pesch was happy when he could chat with workmen about their personal or social difficulties. He always inquired about my father, who had to work hard to keep his family afloat, and he never failed to ask me to remember him to my folks at home. There was hardly a letter or a card from him that did not contain truly cordial greetings to them. Though his great concern was to get his life work, the five volumes of the *Lehrbuch*, finished before God called him home, he did not regard his priestly functions at the Good Shepherd as a mere sideline duty. In his autobiography he wrote:

Now [since 1910] I have been helping in the pastoral care of the poorest of the poor, the victims of the big cities Never before did I realize as clearly the importance of the family for man as I do now in my work with these frightened girls It is a special comfort to me

when I get a chance to lighten the burden of the sick among them or to assist them in their last hour and to pay the last tribute of respect to those who died. Most of the time I am the only mourner who follows the coffin of those lonely people.⁴

Avoided Controversy

Father Pesch did not care to be drawn into heated and futile controversies. He made up his mind to search for the good points in the thought of others. This may explain the somewhat eclectic character of his writings which contain long excerpts from other authors. "I told myself," he wrote, "if you have acquired the fruit of the efforts of the most able scholars, then you have gained much already and you can go on building in your own manner." (p. 199)

"People always say," he once told us, "that Jesuits have their fingers in all the political pies. It seems that the minister of finance of the German Republic, Dr. Joseph Wirth (later Chancellor of the Reich) thought so too. Recently he requested a visit to ask my advice in matters of financial policy. I was sorry, but I had to decline. We can show the general direction, point out the principles, but (here Father raised his fingertips) we do not burn our fingers!"

Always Encouraging

He admonished us young people not to be rash or hasty in our judgments, but to keep our eyes and minds open and to study hard. I treasure dedications from his pen that reflect his own maxims: "Never despair! Always trust in God! What you do, do well!" and in another book: "Never do things half-way. Do a perfect job and remain humble." When I had passed my doctoral examinations, he wrote: "Most cordial congratulations . . . Now go ahead courageously: for God and His

Church. I will not forget you in my prayers! And a whole carload of greetings to you." His older brother, the renowned Jesuit philosopher, Tilmann Pesch, reminded him often of Schiller's words: "Create goals for yourself; man grows with his higher aims." (*Ibid.*, p. 194)

This deeply religious man refused to neglect the *causae secundae*. He always declined to write a book on Catholic economics or to treat economics from a theological point of view. (*Lehrbuch*, 2, vi) Even though he recognized, of course, the great importance of the Christian *weltanschauung* for economic life, he emphasized "that no economic system can be derived from the Christian Gospel." (*Lehrbuch*, 2, vii)

Sought Balance

Needless to say, Pesch stressed the fact that neither economic practice nor economic science must ever violate the moral law or declare something as economically justifiable that is morally objectionable or outright evil. Yet, he felt it necessary to warn the economist who is rightly motivated by religious convictions and an ethical zeal, to beware of an exaggerated spiritualism.

Religion cannot produce grain; it cannot do away with physical ills. Morally advanced peoples will, no doubt, profit economically from the active, especially the social, virtues of their citizens and will be better prepared to endure physical evil and hard times. But this does not mean that the economist should theologize or moralize in the treatment of his subject matter or, what is worse, try to derive an economic system from Holy Scripture. Medieval scholasticism, as well as present-day moral philosophy and moral theology, deals with the facts of economic life from a moral point of view. That is not the job of the economist. He will not, of course, oppose the demands of ethics, but neither will he lose sight of the fact that economics has become a [relatively] autonomous science, which treats of the economic life of nations from a viewpoint different from that of ethics. The decisive viewpoint of the

⁴ Felix Meiner, *Die Volkswirtschaftslehre der Gegenwart in Selbstdarstellungen*, Leipzig, 1924, 1, 207.

latter is that of moral goodness, while for economics it is that of national prosperity. The material object may be partially the same for both, but their respective formal object definitely differs and that is why they are to be regarded as independent sciences.⁵

If Pesch can be "classified" at all, we might say that he was a welfare economist and, in a certain sense, an institutionalist. Much of his writing is in the field of social and economic philosophy, as well as in economic policy. His approach is largely, though not exclusively, historical. His discussion of problems of theory usually starts out with a review of earlier doctrines and hypotheses, somewhat in the manner of a scholastic disputation which considers the pro and con of various propositions before drawing a positive conclusion.

Admired Many Authors

He made no secret of his admiration for certain non-Catholic economists, such as Erwin Nasse, v. Sering, Adolph Wagner, W. Sombart, Maurice Block. On his prie-dieu we saw *Nightly Meditations of an Economist* by Wilhelm Roscher, one of the founders of the so-called older Historical School. "Very good reading," Pesch said of it, "and fine for meditation and contemplation, even though Roscher can be quite rude every now and then."

He regretted the fact that modern higher education makes little or no use of the method of debate, which activated the mind of the students, trains them to distinguish carefully, to respect other opinions, and to learn from others. While he had an outspoken dislike of hairsplitting controversies and the use of an affected terminology, he was quite interested in questions of pure

theory, such as the theory of value, which is now deliberately neglected.

I remember when he once exclaimed: "Franz, you should make it your special task to find a solution of the problem of value, which incorporates that which is good in both the genetic and the teleological theories." (I believe that Alfred Marshall and other neo-Classical economists have been quite successful in their attempt to bring together and harmonize the cost of production and the utility theories of value. F.H.M.)

In presenting Pesch's teachings, two important points have often been neglected, viz., his emphasis upon the "national" character of economic life, and the fact that, long before *Quadragesimo Anno*, he advocated a reorganization of social economy along lines of industrial representation.

Some of those who did refer to Pesch's concept of "national" economy have misinterpreted it as a nationalist concept. Pesch was far from being a nationalist. He simply based his theory on the fact that the "people" in the sense of a body of persons unified by a common political structure and territory, represent the most stable and coherent, that is to say, the most perfect natural society. Man, who by his very nature is a political being, ordinarily accomplishes his economic ends within the framework and with the assistance of the state. The national economy is more than the sum total of individual economic units linked by contractual ties. It is the body of the citizens cooperating in the satisfaction of their common material needs. Like Adam Smith, Pesch inquired into the nature and causes of the wealth of nations and found it to spring from the industry and solidarity of its citizens.

⁵ In Felix Meiner, *op. cit.*, p. 203.

Professor Goetz Briefs, author of the classic work, *The Proletariat*, and a disciple of Father Pesch, compares his thought with other economic systems.

PESCH AND HIS CONTEMPORARIES

Nationalökonomie vs. Contemporary Economic Theories

Goetz Briefs

Georgetown University, Washington

THIS PAPER is a tentative analysis of Father Pesch's *Nationalökonomie* in the context of the economic thought of his day. In a somewhat unfelicitous phrase, Father Pesch once characterized his system as an "in-between of liberalism and socialism," (*Lehrbuch*, ed. 2, 1,249), thereby playing into the hands of those who classified his doctrine as a compromise between liberalism and socialism. Even Othmar Spann, who should have known better, was of this erroneous opinion.

Formulated Third Way

But nothing could have been farther from Pesch's mind or system than compromise. He once remarked to me, concerning an article I had written ("Zur Kritik sozialer Grundprinzipien," in Max Weber's *Archiv für Sozialwissenschaft und Sozialpolitik*, 1921 and 1922): "I agree with you. H. Dietzel is wrong in assuming that there are only two logically possible approaches. In fact, there are three."

The three he had in mind were liberalism (individualism), socialism and solidarism—the latter an independent approach. He never could agree that the true system was a compromise between two errors.

Besides liberalism and socialism, Pesch had to deal with other approaches. There was the historical school of economics, which was powerful in his time. Its leader, Gustav Schmoller,

larded it over the economic chairs of Prussian, if not of all German, universities. Pesch had to take issue with this school, too.

And finally there had been beginnings of Catholic socio-economic thought from the days of Adam Müller. In Italy, France and Belgium, as well as in Germany and Austria, Catholic thinkers had reviewed and appraised both liberalism and socialism; having found them completely wanting, they had naturally undertaken to develop what was termed a Catholic social doctrine. Pesch stood on the shoulders of some of these pioneers, without being able completely to identify his standpoint with theirs.

1. Pesch vs. Liberalism

Father Pesch had investigated and criticized liberalism and its philosophical foundations in his voluminous, *Die Sociale Frage, beleuchtet durch die Stimmen aus Maria-Laach* (Freiburg i. B., Herder, 1901). The third volume deals with the philosophical foundations of both liberalism and socialism.

After this lengthy background of study, Pesch was on familiar ground when he returned to the discussion of liberalism in his *Lehrbuch*. Here is an effective quotation which illustrates the incisiveness of his criticism as it had been developed almost 50 years ago:

The difficulties of economic life, which economics has to analyze, are tremen-

dous, and the errors of wrong economic doctrines have had devastating consequences for the nations. If the principles of moral law had been applied, we should not be faced with disaster today. Individualistic liberty, socialistic views of human and social life and the "natural laws" of pure economics have caused the rise of what is called capitalism in the bad meaning of the term. And it is this capitalism, in turn, which explains the rise, the growth and the lure of socialism. (*Lehrbuch*, 1,497)

Qualifications on Theory

Pesch would not object to a "pure" theory of economics as a matter of approach. He would qualify it, however, with a number of provisos. The first of these is that the pure theory must not claim to be the only possible approach. The second is that it drop its scientific claim. The third, that it drop the premise of "economic man." And finally, that it recognize the moral law.

Reason has to enlighten and guide the instincts and passions of man. No economic system can do without such guidance; none can function on self-interest alone. The liberal school, Pesch argues, pays attention to reason only when it strives to maximize gains and to avoid losses. But reason should not be silenced whenever it speaks for the moral law. There is no justification of a search for the "natural laws" of economic life, meanwhile deliberately ignoring the moral law.

The most profound difference between liberalism and the system developed by Pesch lies in their basic philosophies of man and society. Liberalism views society as a pluralism of autonomous realms (economic life, political life, religious life, private life, etc.) in which each realm has distinct moral standards and laws—or none.

Single Moral Law

For Pesch there is only one universal moral law; it allows for no extraterritorialities. The moral law is divinely instituted and extends to all human

activities. Economic life perhaps least of all is exempt. A purely secularist approach to economic life is impossible because man, though living in this material world, also belongs to a realm which transcends time and space, and a social philosophy which ignores the laws of this realm and adopts a purely materialist view of man inevitably leads to devastating chaos.

This emphasis upon the import of the moral law has significant consequences for Pesch's attitude toward the liberal notion of society, also. Liberalism sees society as consisting of individuals acting and interacting in a variety of wholly autonomous spheres. One of these is economic life.

Division of labor, exchange of goods and services by way of free contracts with the market as the focus of this society are its constitutional elements. Prices and incomes are the result of competing interests centered around the desire of maximizing returns by buying and selling in the market. Value is market-value, and everything is for sale. Human virtue and values are within the field of market forces, and so is the dignity, not only of the individual man, but of the whole of human existence.

Society Closely Unified

Pesch objects.

It is true that society has its wide ranges where self-interest and competition have their place. Nevertheless, society has its spheres of mutual aid and cooperation also. Even more important, society is a hierarchical structure, growing out of men's need for mutual assistance and for the human development which association with others inevitably effects.

Liberalism erred in failing to recognize the basic community of interests between men and the hierarchical structure of society—both rising immediately from radical needs of man's nature—which distinguish society from

a mere horde. As a result it erred also in placing its trust completely in the blind mechanics of the market to regulate moral actions. In writing off the ethics of charity and justice under the assumption that the mechanics of competition left no room for them, liberalism not only invited chaos in economic affairs, but inevitably doomed man to a very limited realization of his own innate potentialities.

It must always be kept in mind—and this must be emphasized because of the assertions of many well-meaning Catholic reformers today—that Pesch recognized a real function for the market, for self-interest and for competition. But while he recognized an entirely legitimate area of play for competition and market forces, he demanded that the moral law must always serve as a rein and curb upon their antisocial tendencies. If the checks are absent, society presents at best the picture of an organized—at times, perhaps, prosperous—chaos. At other times its very existence is in peril. Market laws should not be allowed to ride roughshod over the basic requirements of man and society.

Weaknesses of Liberalism

Pesch finds liberal philosophy deficient in other important respects. It divorces state and society; it claims priority for the latter without attributing any reality to it. The state is reduced to the role of a watchman, charged with such limited functions as an individualistic society finds unremunerative or too cumbersome. Liberalism gives no recognition to the common good, which it is the chief function of the state to safeguard. As a result, state and government lack the meaning and the dignity attributed to them in Christian social philosophy.

With regard to the church and its role in society, liberalism is even more radical. The church is no longer the

custodian of public and business morals; she has no responsibility to sharpen and guide the consciences of rulers or citizens. In the strict logic of liberalism, the church is a private organization designed to allay the anxieties and troubles of people who feel the need for some kind of spiritual uplift or edification. Beyond such a function the church has no jurisdiction.

Requires Atomized Society

The liberal notion of society leaves no room for functioning social substructures, such as guilds, cooperatives, mutuals and corporations (of the medieval, not the limited-liability, type). The ideal-typical form of liberal society is a group of economic individuals bound together by self-interests and contracts of self-interest, all focused upon the market.

In such a society, there could be no meaning or purpose for social substructures, when the market takes care of everything, including "justice." The state has only a negative police function and loses its all-important role of subsidiarity, which means not merely that it leaves to other institutions the performance of social operations for which they are adapted but that it positively encourages such action and fosters the social climate in which social life can best be lived.

Pesch's fundamental objection to economic liberalism is that it refuses to recognize three tremendously important realities: the moral law, a hierarchic order in society and the principle of subsidiarity.¹ The price that must be paid by such a society is class war and the swift ascendancy of an all-interfering state. Pesch might have remarked

¹ An excellent exposition of the principle of subsidiarity can be found in the latest issue of the *Modern Schoolman*: Johannes Messner, "Freedom as a Principle of Social Order," *Ibid.*, 28 (January, 1951) 97-110.

that the very dialectics of a liberal society result in totalitarian trends. Our post-war generations have had ample opportunity to observe the operation of these dialectics.

So much with regard to liberalism.

Individualism Goes Further

We distinguish more sharply than Father Pesch between liberalism and individualism. Turning to the latter social philosophy, we note that Pesch opposed any individualistic constitution of society. In the present author's judgment, liberalism is a philosophy of negation, of emancipation from a previous state of society. The affirmation springing from this negation is individualism.

Individualism establishes the principles which rule a liberal society.

We sum these principles up as 1. individual self-determination in the whole range of economic affairs (that is, regarding work, investment, disinvestment, savings, buying, selling, technology, in addition to strict rights of private property and freedom of contract), 2. it follows from this principle that the individual is self-liable; success and failure are his, 3. the consequence, in ethical terms, is the supreme rule of self-interest; (self-interest is not a *faute de mieux*, but a positive and dynamic factor, the motor which drives economic life), and 4. a society so conceived and established is a competitive society; competition is the mechanism which holds the market forces in check and directs the factors of production toward their optimum allocation.

Pesch's Comment

Pesch would comment upon each of these points. Against the first he objects that it is a revival of the Roman Law concept of the *jus utendi et abutendi*. He rejects such a concept because the moral law carefully defines and circumscribes the right of private

property; indeed, it is mortgaged with social obligations. Similar moral obligations are involved in work, investment, savings, buying, selling and contracts.

Pesch objects to the second point of self-liability. As understood in strict individualistic terms, self-liability ignores the very nature of man and society by assuming that man is not, or should not be, in need of others and of social institutions. Not only is no one his brother's keeper, but no one needs a keeper.

Nevertheless there are in every form and shape of society individuals and social groups unable to meet the liabilities put upon them by other groups and by circumstances. They have a natural right to organize for their own protection and to appeal to social substructure — and finally, to government — for assistance. They have the right to associate for mutual aid. They may, in justice, make use of means designed to guarantee their rights.

Must Curb Extremes

Against points 3 and 4 Pesch places great emphasis upon the limitations that regulate self-interest and competition. Within the limits of moral law and checked by pertinent social institutions, both self-interest and competition have their valuable socio-economic function. In their place they serve the common good; running amuck they are devastating forces. Pesch is well aware of the extent to which the development of social policy and social organizations can hem in the wild growth of self-interest and competition.

It should be obvious that Pesch's system is no compromise with liberalism. His totally different philosophical anthropology and sociology make his thought radically different from liberalism. Christian philosophy of man and society constantly challenges a merely secularist view. The

fact that Pesch recognized functions for the market, for self-interest and for competition indicates no compromise; it demonstrates his Christian realism and common sense, since no economic system can do without some degree of free exchange, self-interest and competition. From a moral standpoint none of these is objectionable in itself.

2. Pesch vs. Socialism

The dominant type of socialism in Pesch's lifetime was Marxism. In his day, however, it was no longer a unified creed. There were communists of various shades, such as the Austro-Marxists and the "revisionists" of the E. Bernstein dispensation. Of all these Pesch dryly remarked: "Socialism as a 'scientific' system is dead, but the socialists are still with us." (*Nationalökonomie*, 1,380.)

His initial attack upon Marxism is concerned with its basic assumption, the materialistic interpretation of history. The Marxian thesis that technology is the all-determining factor (or, in a later version of Engels, the determining factor "in the last analysis") is untenable for Pesch. Equally untenable is the Marxian reduction of all other matters to the status of superstructure, to mere reflexes of the underlying technology and production relations.

Cannot Have Goal

According to Pesch, economic materialism is self-contradictory and incompatible with the facts of history. Evolution presupposes a *telos*, a goal. But materialism leaves no room for a *telos*, except by the fabrication of a myth. And it was precisely in a myth that Marx took refuge. No materialism can demonstrate any kind of "historical necessity" for evolution toward socialism and the "emancipation of mankind" through the proletariat. Such theories are bad metaphysics and poor history.

The roots of such a theory are the unholy alliance of Enlightenment phi-

losophy with Hegelian dialectics. Pesch might well have stated that Marxism, in its socio-philosophical aspect, is a mock theologoumenon of the worst kind—a secularist transcription of the great theological doctrines of Fall and Redemption. For Marx the state of original justice is primitive communism; the Fall is the rise of private property in the means of production; and the final redemption through the vicarious sufferings of the son of man, who is, for Marx, the proletariat.

Springs from Revelation

The parallelism is striking; moreover, there is no way of arriving at this metaphysic from a purely secularist interpretation of history. It can be achieved only by turning the doctrine of Redemption upside down, as Marx asserted he did with the Hegelian dialectic; this myth can only be reached by transcribing theology into secularist terms. Both the philosophy of the Enlightenment and Hegel were similar transcriptions, and Marx drew on both—as well as on his own tradition. He was the scion of a long line of rabbis, and the Fall and Redemption are concepts that have found their way into the blood of Christians and Jews alike. They are what I like to call "categorical imprints" of the Western mind.

We need not go into the Marxian doctrine of labor value, of surplus value, of proletarian "immiseration," as Schumpeter aptly termed it, of the impotence of governments and social organizations to control the social evils besetting capitalism. For Marx, capitalism was beyond repair; it could only be destroyed.

For Pesch, on the other hand, just as *Deus sanabiles fecit nationes*, so capitalism can be cured of its evils. They were not, as Marx assumed, an incurable disease; and certainly socialism and communism would be worse, for Pesch, than a socially tempered and restrained capitalism could possibly be.

Outlined Solidarism

Secularism of the anti-theist brand he found more ingrained in Marxism than in liberalism. Moreover, the latter social philosophy had more understanding and sympathy for the natural rights of man because it was closer to the essentials of the Christian tradition than was Marxism.

Against both liberalism and socialism Pesch developed the outline of a system of solidarism. He recognizes four levels of solidarity: 1. the universal human solidarity; 2. the family solidarity; 3. the solidarity of citizens belonging to the same state, and 4. professional (occupational) solidarity. "Solidarism," he said, "is that social system which is based upon an ethical-organic concept of society and which demands a social organization corresponding to solidaristic principles." (*Nationalökonomie*, ed. 2, 1,415)

3. Pesch and Economic Historicism

Pesch stands in opposition to the historical school also. This school was powerful in Germany after the brief interval of liberalism (Kraus, Hufeland, Storch, Rau, Max Wirth). Early tendencies toward the historical occurred with Adam Müller, Friedrich List and Hermann. Hildebrand, Roscher and Knies belong to the "old" historical school, whereas the so-called "younger" economic historicism was supremely represented by Gustav Schmoller and his disciples.

Berlin University, when Pesch was a student there, was strongly dominated by Schmoller. But Adolf Wagner attracted Pesch more than did Schmoller. Wagner was the keener mind, the sharper logician. He had more understanding for economic theory and for the need of a systematic doctrine.

Pesch objects to economic historicism on the ground that it over-emphasizes change and, therefore, arrives ultimately at an untenable relativism. He was

especially critical of the Schmoller approach because it frequently courted positivism and evolutionism. Schmoller expects more from the historical approach than it could possibly achieve. No systematic doctrine, whatever he may have thought, could be gained from it. Valuable in its place as "microscopic" research may be, it cannot establish principles. There is more to economics than mere description of what has happened.

4. Pesch and Traditional Catholic Social Doctrine

Catholic social thought in Germany had run through four phases. There was, first, the romantic period (Adam Müller and Schlegel); it covered about the first third of the nineteenth century. Its interest centered more upon political than upon economic and social problems.

The second period is represented by Baader and Buss; it reaches into the '60's. Pauperism was the great issue of that period at a time when the vital differences between the social problem and the problem of pauperism was not yet realized. Even von Ketteler, in his early writings, was not yet aware of the real issue.

With Ketteler, however, the third period begins; to be precise, it opens with his *The Labor Problem and Christianity* (1864). During this period great hopes were entertained about the re-establishment of an occupational order along the lines of guilds and corporations.

From the '90's on, especially because of the establishment of the Catholic People's Union, Catholic social thought in Germany was in its fourth phase. The significant leaders in this period were Franz Brandts, Franz Hitze and August Pieper. This period was characterized by a strong belief that capitalism could be reformed and humanized by the influence of Christian principles and institutions.

Seeks Organic Reform

Pesch notes that these various groups are united in their reliance upon reforms developed from Christian principles. However, he objects to their preoccupation with measures which we would characterize today as "New Deal," and emphasizes the necessity of reform that involves development of an "organic social structure," that is, on an occupational order.

He makes it clear that "organization along occupational lines is not a requirement of natural law;" it is not essential to social order. But it is a *proprium*, something which rises immediately from the nature of society. (*Lehrbuch*, 4,263) "A perfect social order would require an organization along occupational lines." (*Ibid.*)

Such a socio-economic structure should develop as a voluntary and free understanding among individuals and groups themselves. The functions of such a system should be directed more to restraining and controlling than to positive direction and planning. Undoubtedly Pesch saw in certain contemporary institutions (from Chambers of Industry to the German law on Works' Councils) the expression of a clear trend towards an occupational order. This trend appeared to him something "natural," something to be expected under the conditions of "sound historical development."

5. Summary

We might make five remarks by way of conclusion.

First, some authorities classify Pesch as a representative of the "ethical" school of economic thought. Such is the position of Karl Diehl and Werner Sombart; the latter, incidentally, devotes just two lines to Pesch. (*Die drei Nationalökonomien*, München, 1930, p. 36) Ethical, of course, means non-scientific. Pesch's reference to moral law, however, is not more "ethical"

than the references of classicists to self-interest. Consequently, the difference between Pesch and the liberal school, in this respect, lies not with recognition of ethics, which is common to both schools of thought, but with different standards of ethics.

Behind the different standards we find the decisive difference of a philosophical anthropology based on Christian humanism and of one based on a naturalistic anthropology. The Peschian society is a humanist society conceived in the Christian spirit; the classicist society is a Hobbesian society, a *lupus-homini-lupus* society. Of course, the classicists—and Adam Smith very decidedly so—were intentionally humanists. Their failure is to be found in the means they selected, not in their ideals.

Denies Blind Evolution

Secondly, this is the precise point at which Marx started. He saw the classical means (self-interest, competition, etc.) in action and realized their tragic consequences. As a result he experienced the profound revulsion against liberalism and capitalism that often characterizes the class renegade. He had, too, the violent passion for justice of the born revolutionary.

Capitalism in its liberal phase breeds class war, and class war breeds revolution. Marx could not bring himself to believe that ethics had anything to do with economics because the sweep and pressure of the profit motive seemed to be uncontrollable. Consequently he took an a-moralist view of capitalism. On the other hand, however, he had embraced the idea of a secularist and "emancipated" society.

Steeped as he was in the Hegelian notion of an automatic and inevitable trend to history, he quite naturally concluded that liberalism and capitalism were "necessary stages" in the evolution toward socialism. Under the impact of this double ideological impetus,

Marx could hardly avoid espousing class war and revolution. His Jewish pathos for justice was misdirected because of that same ideological virus. "Justice" became the function of historical necessity, to be realized only at the End of [capitalist] Time.

Pesch, inspired by Christian realism, rejected the ideologies that had led Marx astray. To him, history was not evolving inevitably toward human salvation conceived in secularist terms. The Marxist "history" appeared to Pesch no better than the classicists' "nature." Philosophy and reality pointed toward the moral law; it is binding in all fields of human action, economic life included.

We can conclude our *third* remark briefly. Economic historicism has no means of attaining principles and systematic thought. It mirrors everything within range, wherever human will and action encounter the multiplicity of contingent facts. The very understanding of history presupposes ethical standards and values; only with such equipment can man learn from history. And the best he can learn is wisdom and humility.

Gained from Contemporaries

Fourthly, with regard to Catholic social thought of previous generations, we must state that Pesch enjoyed the privilege of a late-comer. A number of circumstances favored him in his lifetime. In the first place, the revival of Thomism placed a valuable instrument in his hands. Sombart is inclined to ascribe Pesch's greater stature precisely to the influence of scholastic

philosophy. Pesch himself was well aware of the debt he owed to such scholars as Theodore Meyer, Cathrein and Lehmkuhl.

He was fortunate, too, in that papal encyclicals had clarified Catholic doctrine concerning government, liberalism, capitalism and socialism. French social Catholicism illustrates better than German the unifying and orienting force of Leo XIII's pronouncements, largely because French Catholicism comprised a large middle class, while Catholic Germany was composed mostly of small and modest farmers and workers, with a sprinkling of landed aristocracy, professors and civil servants. A Catholic bourgeoisie was a late development in Germany and there was no sign of its rise and development before the '90's.

Finally, Pesch lived and wrote at a time and in a country which experienced the unexpected leeway the capitalist system offers to social reform and to the improvement of workers' conditions. The realization of this fact furnished the foundation for the powerful Catholic People's Union. Some Catholic writers made their peace with capitalism to the extent that they encouraged "penetrating the capitalist fortress" and "fulfilling the mandate of the Good Shepherd in the plants and at the stock exchange." (Franz Keller)

No appraisal of Pesch's great achievement can ignore these favorable circumstances. He wrote, as it were, in the "fulness of time" of Catholic social thought.

Our special editor, professor of economics at San Francisco University, discusses the crucial question of freedom in Pesch's socio-economic thought.

ECONOMIC FREEDOM IN PESCH

His System Demands, but Restrains, Freedom

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THE CURRENT intense interest in the problem of economic freedom is not an innovation in economic thought. A century before the birth of Heinrich Pesch, the French Physiocrats coined their expression, *laissez faire*, which became the symbol of absolute freedom for the individual and of a governmental policy of non-interference in economic questions. Through the influence of Adam Smith's *Wealth of Nations*, this individualistic ideal of economic freedom became one of the essentials of classic economic thought.

But in the nineteenth century a reaction emerged, particularly on the continent, against the evils arising from this *laissez faire* policy. And Heinrich Pesch, the famous German economist, must be included in this series of critics of unrestrained freedom. However, because he was opposed to *laissez faireism* and was a critic of unrestrained competition, it would be a mistake to believe that Pesch did not esteem economic freedom. On the contrary, as I shall endeavor to show in this paper, the German Jesuit valued economic freedom as an essential constituent of economic life. He rejected only an irresponsible freedom, which elevated individual self-seeking and individual interests above the common interest.

Pervades Whole Theory

Economic freedom is not used here in the passive sense of freedom from want, fear, etc.; but it is used as commonly employed in current economic discussions in the sense of freedom to choose, to work, to own, etc. This active notion of freedom enters into every analysis of the economic process and is a vital factor in every economic problem: "In economic theory the question continually recurs what degree of freedom, what degree and what form of control is required by the goal of the economy."¹

Questions of consumer sovereignty, types of market structure, the organization of the economy as a whole are examples of the broad problems which can be resolved only when a sound and adequate view of economic freedom has been arrived at. And involved in these economic issues are the more general social problems of the proper relation of the individual to society, and the proper role of the state. Nor can these broader social problems be satisfactorily solved until the concept of freedom is clearly delineated.

¹ Heinrich Pesch, *Lehrbuch der Nationalökonomie*, Freiburg i. Br., Herder, 1924, 1, 553. In the remainder of the article all references to the *Lehrbuch* will be to the latest editions and will be embodied in the text. The translations from Pesch have been made by the author.

Freedom Must Be Rational

The guiding idea in Pesch's concept of freedom is: freedom is not an end in itself. For those who wish to make it an end in itself many practical problems remain insolvable except on the basis of expediency which builds no firm foundation as a rational guide. Pesch adopts the more realistic position that if freedom is not to become the base instrument of brutal self-seeking it must postulate a higher standard. This higher standard is justice. And only the acceptance of the principle of authority develops and guarantees that degree of justice without which freedom remains only a parody. One practical conclusion from this analysis of the freedom concept is that the higher we value freedom, the more must we seek justice.

Because Pesch postulates a higher standard, a measure for freedom, is not a sign that he undervalues freedom. It is simply that for him "freedom is a problem, not an axiom." (2, 267) He is opposed merely to unlimited, unrestrained freedom which recognizes no higher law and which can be seriously harmful to the attainment of the goal of the economy. He rejects only the individualistic economic doctrine that demands complete freedom for the instinct of self-love.

Needs Self-Regulation

Nor does Pesch deny that self-love is a legitimate instinct. But he asks: "Actually, would not every economy and every state collapse, if the 'average' of its members would let themselves be guided only by their own interest and would wish to deny every consideration except the 'principle of the smallest means?'" (1, 552) Self-interest is an instinct, an impulsive force and tendency within our human nature. Only it is not to be forgotten that instinctive forces are subject to man's reason: the guiding law of free rational men belongs to the intellectual and moral or-

der. Personal utility is a motive, not all motives; and it is a motive, not a norm.

Pesch praises freedom as "a major stimulating motive animating the development of abilities"; he demands and protects "every freedom which is in harmony with common welfare and which can further the most favorable possible attainment of the goal of the economy." (2, 245) Thus it is the goal of the economy, the material welfare of all the people, which ultimately determines the measure of individual freedom. And in the concrete this measure will vary according to circumstances. Thus, individual economic freedom is an elastic concept.

Examines Major Aspects

It is only by a detailed review of Pesch's frequent application of the notion of freedom to various economic problems that we can appreciate the importance he attached to this constituent of welfare. I will point out some of these applications as they are found in the five volumes of the *Lehrbuch*, particularly in reference to the problems of consumer sovereignty, competition, collective bargaining, private property, and capitalism, collectivism and the social system of labor.

a. Consumer Sovereignty

In Peschian teleological economics, the consumer is placed in the foreground of the economic scene. The final step in the economic process is the satisfaction of consumer wants. But there is need of a rational ordering or regulation of consumption. However, in normal circumstances, this regulation of consumption is substantially a task "which the consumer, guided by reason and conscience must accomplish for himself." (4, 192) The importance of consumers' choice is emphatically recorded in the unrestrained words of Schaeffle, quoted and approved by Pesch:

Freedom to determine one's own wants is certainly the most basic fundamental

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of freedom. If the means of life and culture were somehow measured from without, even to each one according to his own particular want pattern, still no one could live and develop according to his own individuality. . . . That one fundamental, practical freedom—individually to employ our private revenue according to our free discretion—we would not be ready to sell for all the possible benefits of social reform heaped together. (1, 388-89)

One practical application of this is found in the question of luxury laws. These laws, according to Pesch, are not in themselves immoral, since the right to private property is not absolute. But he opposes such laws, except for revenue purposes, because they are impractical and are surrounded with the danger of unbearable bureaucratic interference in the private life of the individual and the family. (4, 234-36)

b. Preserve Competition

The study of Pesch's views on competition is of special interest, for some of his statements about competition have given rise to misunderstandings of his position on freedom. Pesch is opposed to unlimited free competition. Competition which knows no higher law, which is restrained by no higher norm than individual profit, is said to lead to anarchy in the market, business crisis and unemployment. Moreover, such competition leads to its own self-destruction: under a competitive system a competitor aims, as much as he can, to be *free from competition*. To increase his own profit, each competitor endeavors to eliminate, to destroy his burdensome rivals. The final result is not the pleasant picture, frequently described, of a competitive market with its tendency toward equilibrium, but a monopolistic or oligopolistic market ruled by the survivor or survivors of the market warfare.

Pesch is not opposed to competition in itself; in fact, he wishes to preserve it. In unhesitating terms he explicitly acknowledges the benefits due to com-

petition: "We owe to free competitive enterprise the great benefits of the last century in the field of knowledge and 'know-how'; in it dwells a never-failing, animated, creative force; it is able to harness forces for the highest production, always creating new goods for the welfare of the people." (4, 220-21)

Requires and Limits Freedom

Competition and freedom are considered necessary for industry, especially in time of peace. But, asks Pesch, "must, therefore, the principle of absolute freedom of trade be introduced into economic life?" (4, 228) He answers:

He, who knows no other model for the organization of the economy than the two extremes of monopoly and free competition, will be inclined to let free competition in its absolute sense take the place of monopoly. A rational economic policy, on the contrary, does not forget that a regulation of freedom even without monopoly is possible and within suitable limits is necessarily desired for the public welfare of the people. (*Ibid.*)

In keeping, then, with his general concept of freedom, the German Jesuit demands that free competition, too, must submit to a higher standard, the goal of the economy. And the conclusion derived from this higher norm is two-sided: it requires and limits freedom. This guiding norm, the material welfare of the people,

requires this freedom where and to the extent that it leads to a more abundant provision for the people, but demands the limitation of freedom where it stands in the way of this provision. Therefore it does not exclude competition insofar as competition can lead to the expansion of production, to the more accurate adaptability to needs, to a technical and economic perfecting of the production process and to the greatest possible reduction of the cost of the product. (4, 321)

The Peschian competition policy reveals his balanced position on the place of freedom in economic life. In lieu of the conventional slogan "the restoration of competition" Pesch, aware that com-

petition can lead to its own self-destruction, proposes "the regulation of competition." This does not mean that a sound freedom of competitive business, the employment of special skills and knowledge, the development of inventions should be curtailed. Merely the abuses and evils of competition *which destroy freedom* are to be checked. This will be dealt with below under the discussion of the function of the vocational groups.

Competitive Prices

In the related question of price-formation, Pesch postulates the true competitive price as the optimum. But he does not hold with the empirical economists who claim that every price arrived at in the market is a fair price, is economically desirable. In the common case in which price is determined chiefly by the unilateral action of a monopolist or a few sellers, he seeks to have the consumer organized so that he too will have a voice in price determination. This bilateral solution for monopoly and oligopoly price is based on the same reasoning as is commonly applied to a labor market where a single employer or employer organization confronts a large number of unorganized workers. For in such an unequal market neither the wage, nor the price, can be expected to reflect the objective factors involved.

However, compulsory prices — whether fixed by the state or vocational groups — are not favored. He says explicitly in his price discussion: "We presume a free exchange economy without official price regulation." (5, 51)

c. Collective Bargaining

Again, in the question of collective bargaining the important issue of freedom arises. Among the reasons Pesch puts forth in favor of collective bargaining is that such bargaining is necessary to protect the freedom of the workers. And the latter is considered important, since "a develop-

ment of the economy such as we have witnessed would be unthinkable without free laborers; it would remain unattainable for an economy dependent on slaves, serfs, prisoners." (3, 173) Pesch denies that this advantage of freedom is found in any complete sense in the individualistic system of freedom. There one may find "legal" equality, but in reality this only destroys true freedom and means the capitulation of the laborer to the employer. The latter can wait for his money; the laborer cannot wait for his subsistence.

However, though the employer does not need the individual laborer, he does need labor-power. And the laborers thus organize to utilize this need, to equalize the weapons in the battle to determine the conditions of labor. "The principle of collective bargaining, in its complete application, signifies the introduction of a truly 'free' and 'equality-of-rights' labor contract." (3, 174) In the background of this discussion is the idea that an unreasonable and harmful competition between the workers themselves is possible. This may be due not only to the profit motive, but may be made excessive through need. It is the task of collective bargaining to give the workers protection from such unreasonable competition of their fellow-workers.

Union Domination Possible

Included in the objections against collective bargaining, cited and discussed by Pesch, is the very modern criticism that collective bargaining only substitutes the tyranny of the union for that of the entrepreneur. Pesch answers that every community or organization requires a sacrifice of its members; this is true even of the natural societies—the family and the state. The tyranny, which frequently exists, is due to human defects. It deserves censure, it is true. But it can be eradicated; it is not a necessary property of an institution which is sound in itself. (3, 178)

The role of the state in the field of labor relations involves the question of freedom. On the general principle that political regulation is permissible only when other forms of regulation are not possible and when the public welfare unconditionally requires it, the state may set up the general legal forms and necessary juridical processes necessary to realize the standards of justice in industrial relations. It may, to the extent required, protect the rights and enforce the duties flowing from the collective agreements. After all, it would be unworthy of the state to leave such matters to the mere relative power of the parties. But labor and management make their own contracts; they themselves determine their terms of agreement. The contract

remains above all a matter of the parties concerned. Here the law can determine only the extrinsic limits of what is legally permissible. And insofar as the social factors prove themselves capable of the regulation of the entire collective bargaining, the autonomy required for effective development should be left to them. Political compulsion in all these matters is not the first, but the last thing. (3, 190)

If he had not been misrepresented on this point, it would be superfluous to point out that Pesch rejects the determination of wages by the state.

d. Three Economic Systems

In discussions of comparative economic systems, more than in any other phase of economics, freedom is a vital factor to be considered. In the comparison of capitalism, socialism and the Peschian social system of labor the decisive issue is the way in which the relation of the individual to the whole is to be formed, e.g., whether the citizen "can work unhindered as a completely free individual or whether he is to become important in the economic sphere merely as a member or 'associate' of the whole. (1, 279) And the search for the proper unifying principle of the economy is viewed as a search

for a principle which offers "a balance of the individual interests, harmony between the individual well-being and the common well-being, freedom in and with order. . . ." (1, 280)

In these three systems the unifying principles considered for the economy are: individualism, whose guiding norm is absolute freedom and independence of economic individuals seeking their own private ends; socialism (including communism) which seeks a restriction of the essentials of individual freedom; and solidarism whose goal is freedom in and with order.

Individualism

Individualism postulates a natural order based on unrestrained liberty, from whose unhindered operation the welfare of all is expected to evolve. The state, according to this school, is a mere "night watchman" whose only task is to protect the individual person and his property. This individualism, as manifested in the economic theory and policy of the classical economists, is thus described by Pesch:

It prefers to seek "exact" laws, to deal with sensible perception, with interior and external observation rather than with principles, to deal with social and economic "phenomena" rather than with the free actions of morally and legally responsible men, etc. Accordingly, if nothing is to be hoped from a reasonable, planned reform—which must disturb the operation of "nature," violate the "natural" law, the "natural" order—then nothing remains but that the overcoming of social and economic abuses is to be expected only from the unhindered effect of the natural factors, from the freest development of individuality. . . ." (1, 438-39)

Socialism

Under socialism the economy becomes a single, collective unit with society as the sole owner of the means of production, the sole director of the production process and the sole judge of its distribution. It claims to seek freedom and equality for all. But, as Pesch observed, these are contradictory claims: "Whether

equality and freedom may be joined together so easily, whether the equality of subjection under the absolute ruler, 'society,' can guarantee freedom for all, whether the equality of economic conditions may be maintained in the long run without the continual suppression of the inequalities constantly emerging from the natural differences of individuals are enigmas whose solution may not be so easy for socialism." (1, 439)

Solidarism

Solidarism, Pesch's social philosophy, seeks a community of free citizens laboring for the true common economy, not in the sense of a communistic compulsory economy, but through the subordination of the individual economies to the national task of providing for the needs of the whole people—"a provision for needs which does not exclude the market economy as does the communistic covering-of-needs economy." (2, 265) The freedom, variety, particular aims, autonomy and self-responsibility of private enterprise are not suppressed. Trenchantly, Pesch describes the place of the individual in the solidaristic community:

In no system is it more sharply emphasized than here that the individual is not a mere member of a whole, that he is not a mere means for the goal of all, but that he is an end in himself. Men have . . . as men in themselves, natural tasks and goals, and consequently natural rights: the right to exist, the right to work, to acquire property, to activate their personal faculties, the right to found a family, etc. Positive law may be concerned with the more proximate determination of the exercise of these rights. The right itself, however, precedes every positive law and cannot be suppressed by it. (1, 440)

e. Property

An example of the application of these general principles of social organization may be seen in the question of private property. Like individualism, solidarism recognizes the right of private ownership of property. But it is opposed to an absolute, irresponsible

concept of private ownership, just as it rejects the socialistic concept of the state ownership of all the means of production or the communistic state ownership of all property. Solidarism clarifies the limits of private ownership by introducing the requirements of social duty. The central notion of property is that "the goods of the earth should serve all mankind." (2, 243) And it is recognized that this goal is best attained through private ownership, subordinate to higher rights.

Thus solidarism holds: 1. Property signifies power, but limited power, subordinate to the moral and legal order. 2. Property is a right, but not the highest right that would place the material world above the world of men. 3. Property is not an end in itself, but a means to an end—namely, the ordered providing for the needs of all men living in society. (2, 242-43) The social duty referred to embraces more than charity, which provides for the individual needs of the poor, or the obligation to pay taxes. It also implies the duty to use one's property for the furthering of the common welfare.

Condemns Extreme Capitalism

In the application of these social principles of individualism, socialism and solidarism to the structure of the economy, the concrete issue is capitalism, socialism or the social system of labor. It is essential, however, to be clear on what Pesch means by capitalism. He is not opposed to capitalism as such, whether considered as a technical mode of production, the private ownership of capital, the striving for profit or private enterprise. What Pesch condemns is the element he calls the "spirit" of capitalism based on an exaggerated individualism. He thus defines this *individualistic* capitalism which he rejects: "*An economic system arising from the individualistic freedom of striving for gain, ruled by the principles of exchange and the practices of*

the liberal economic epoch, which serves in the first place not the whole welfare of the people, but the owner of capital and his money interests." (2, 230, italics in original)

Pesch's principal economic objection against individualistic capitalism is that it leads to anarchy in the market and is the fundamental cause of crises. He sums up his position briefly: "Not the private ownership of the means of production, but defective regulation of economic life is in fact the fundamental cause of the great disturbances of the economic process." (5, 786)

Socialism Sacrifices Freedom

In his discussion of the socialistic economic system, Pesch's high esteem for freedom is again manifest. One of the reasons why he believes the socialistic system cannot long endure is that it requires the sacrifice of individual economic freedom. Moreover, men have been endowed by nature with different gifts, temperaments and talents; and if a new property class is not to arise, then compulsion and injustice must be employed in order that each individual is *not* paid what is his due. Also, a socialistic system is based on a false psychology. "To production pertains an initiative which today is supplied by the entrepreneur and which cannot be replaced by a social production." (1, 387) This is confirmed by the familiar fact that, normally, common property is not utilized as efficiently as private property. And not only is entrepreneurial initiative lacking, but in all segments of the economy every personal incentive to better oneself is wanting, since every opportunity for economic and social improvement remains closed.

Approves Some Nationalization

Equivalent to socialism is the nationalization program which claims that on principle productive enterprises should be operated by the state rather than the individual. On the other

hand, *ad hoc* nationalization for a certain industry based on given circumstances must be evaluated according to those circumstances. The guiding spirit of this investigation is:

On principle, private property and private enterprise may not be suppressed in any sphere where its continuance and effectiveness can satisfy the common welfare. Rather, only according to the postulates of social justice does a limitation of freedom take place: a substitution of private enterprise by the public enterprise takes place exclusively, solely, and only, in such fields where indubitably the national economic need in reference to the whole rightly demands the suppression of a private enterprise incapable, unsuited or harmful to the needs of the national economy. (1, 198-99)

Put briefly, convincing proof must be offered that the nationalization of an industry is necessary, possible and suitable. Among the weaknesses found in nationalized industries are the facts that the personal interest of the entrepreneur is lacking, self-responsibility and willingness to bear risks declines, technical progress is restricted, bureaucracy with its prejudices and meddlesomeness increases.

Pesch thus sums up his general position on nationalization:

Thus, again we here take a middle position between individualism and socialism. We reject as one-sided exaggeration the socialistic demand of exclusively public business. But no less one-sided would it be if every public enterprise were designated simply as economically of little value and were dismissed as incompatible with the prosperity of the economy.

... Nationalization is the last means, which is to be applied only if vocational-group or state regulation does not suffice to remedy the abuses of private enterprise. (4, 212)

Status in Solidarism

Finally, we turn to Pesch's own economic system, the social system of labor, based on the social philosophy of solidarism. The institutional implementation of this system is found in the vocational groups, organizations embracing everyone engaged in a particular profession or performing a par-

ticular service for the nation.

One of the knotty problems in this discussion is the question of the function of the vocational groups—and it is precisely here that freedom again becomes an issue. The main task of the groups may be described in a general way as "the ordering of the economy." (4, 275n.) To be a little more specific, this embraces a two-fold function: 1. the effective representation of the group's interest before the public and the state; and 2. the regulation, thus the intensification, of the powers of the individuals, which may be deficient in themselves. (2, 257)

Regulate for Freedom

It is the second, the regulatory function, which concerns us here. Some idea of the nature and scope of the type of regulation Pesch has in mind may be gathered from what has already been said above in the questions of consumption, wages, prices, etc. It is significant that Pesch thinks of this regulation "not as the suppression by the group of the individuals and their economic activities, but as the elimination of the evils harmful to the vocational group and to the national community." (4, 263) Self-regulation by the professions and industries which will protect the members against the arbitrary actions and abuses of fellow members is considered the basis of true freedom.

Right order never abolishes the freedom of self-interest; rather it produces the condition for a true and a general freedom. The only thing abolished is the possibility to injure all the others, to disturb and to harm the public welfare by seeking one's own interest—and this is arbitrariness, not genuine freedom. For freedom without responsibility, as the latter emerges from the fact of living together in society, is simply arbitrariness. (3, 9)

And it is in the interest of freedom that self-regulation is preferred to policing by the state.

This regulation should not be confused with a planned economy, which

is rejected by Pesch. A planned economy violates the principle of subsidiarity, which requires that a higher social organization should not undertake what a social organization, lower in the scale, can do at least equally well. And, he believes that a planned economy cannot increase production above the level attained by a "free" economy. For, the "absorption and 'sucking-out' of the independence of the entrepreneur caused by the 'planned economy' is entirely unsuited to lead to an increase of the productive power of the economy." (4, 539)

Perhaps we can best summarize Pesch's view on freedom by quoting the following words which manifest the German Jesuit's well-balanced outlook on the importance and the limitation of freedom.

In our time science must emphasize against individualism the greater development of the social side of the organized economy, but today it must also stress against statism and collectivism the principle of the individual, the freedom and independence of individuals, the private side of the economic organization—indeed without the unrestraint and insolence which characterized these notions in the epoch of individualism. . . . The system of free competition is to be replaced by a system of order, by social organizations, while at the same time competition and rivalry, as indispensable levers of progress, are to be preserved against the new form of monopoly. If the principle of non-intervention is antiquated, still one finds the state interfering beyond its borders where individual and social self-help, the work of social organizations do not need the special help of the state. . . . Faith in the harmony of interests established by itself through the free working of egoism has disappeared. Nevertheless, against class egoism, let loose everywhere, as well as against egotistic individualism emerges so much the more the importance of the principle of the solidaristic community and common liability, the harmony, the equality of interests.

. . . This task [of science] requires today along with the pointed rejection of atomistic individualism, a strong emphasis on the power of the individual, if we wish to avoid the danger of an exaggerated individualism following as an inevitable reaction upon the surge of socialism. (3, 4-5)

Father Yenni, who has written a study of the international implications of solidarist economic thought, reviews the central idea of Pesch's economics.

PESCH'S GOAL OF THE ECONOMY

Economic Society Has a Single Unified Purpose

Jacques Yenni, S.J.

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THE IDEA which integrates the economic thought of Pesch is that of a goal or task which the economic system must perform. The whole economy has one unified job to do. In the midst of its multitudinous variety, this concept of a goal for the whole economy is a constant point of reference for all of Pesch's ideas.

The goal is a central consideration, for instance, when Pesch discusses the nature and scope of economic science. He discusses production, distribution and consumption theory in the light of the total goal. Finally, it serves as a decisive norm for his views on the objectives and methods of social control over economic activities.

Liberalism Lacks Unity

The economic theory of individualistic liberalism had no such unity. According to the liberals, a national economy is simply an aggregate of countless economic actions, linked through division of labor and economic exchange into a purely mechanical structure. This structure is quite unrelated to the integral purpose of political society.¹ Because Providence has or-

dained matters that way, say the liberals, the unrelated efforts of all men to seek their own economic advantage will work out to the best possible—or at least an excellent—operation of the economy.

Pesch recurrently attacked this thesis of liberalism. The structure of his own economic theory is built upon the foundation of Aristotelian-Thomistic social philosophy. The existence of an objective goal to the economy, and its substantial contents are implications of the social metaphysics of scholasticism.²

Part of Communal Life

Pesch insists that social economy—that is, the aggregate of economic activities and arrangements occurring among the citizens of a developed po-

² The goal is "objective" in the sense that it is the *finis operis* (This term refers to the purpose of the operation; the term *finis operantis*, to be mentioned in a moment, is the purpose of the performer of the operation. Thus, the *finis operis* of a cab trip is to get me to the railroad station; the *finis operantis* of Louie, the cab driver, is 40 per cent of the fare and a fat tip.) of social economy—that is, the economy, considering its nature, necessarily implies this goal as the term of its proper functioning. But this is not, normally, the explicit *finis operantis* of the individual participants in the economy. That is, achieving the goal is not the normal motivation behind a worker's individual economic conduct.

¹ See Heinrich Pesch, *Lehrbuch der Nationalökonomie*, Freiburg i. Br., Herder, 1 ed., 3,269-76. Hereafter citations from the *Lehrbuch* will be noted in the text with a simple volume and page reference. In all instances the edition used is the latest, with the exception of Vol. 3, for which the first edition (1913) is employed.

litical society—is a highly important constituent of the social cooperative activity of the community which is politically organized into a state.³ Through their economic cooperation, the citizens are to fulfill part of the total purpose of organized social life. A nation's economy, precisely because it is a specific form of social cooperation within the framework of organized society, is faced with the attainment of an obligatory goal—the provision of the material aspect of that “public welfare” which constitutes the social aim of the state. (2,299)

This inescapable teleology or purpose implicit in social economy involves important consequences. Among those stressed by Pesch is the existence of a moral obligation common to business firms, consumer units and resource owners (workers, landowners, money-capitalists) to relate their economic decisions to the demands of the social goal of the economy. (2,220) These same demands also justify a common subjection of the economic activities of the citizens to the control of social authority.

Economy is Social Unity

These moral and legal bonds with reference to the economy's goal integrate the members of the state as economic agents into a genuine social unity. (3,10) The national community is not a simple co-existence of economic agents bound together in a mere logical unity by a web of exchange relationships, uncoordinated by any legal and institutional framework devised with a view to attaining a common goal. (1,269-76) National economy, says Pesch, is a moral-organic unity of private economic units who, while remaining self-responsible sources of economic decision, are united through po-

litical solidarity. (5,vii) But the unity here involved is a social unity, a unity of order and coordination; it is a unity which does not remove the underlying multiplicity of economic agents (private firms, resource-owners and consumer-units) nor deny them a large share of self-determined economic goals and action.⁴

What, more precisely, is the nature of the objective goal of social economy?

Goal of Economy

In Peschian doctrine it is the secure, enduring and best possible provision of (morally) all the members of the national community with the material goods and services required for the satisfaction of their economic wants.⁵ The elements of this provision process as it occurs in a developed exchange economy are the structure of production (including the volume and kinds of goods produced, and the productive techniques), price formation in the markets for finished goods and services and income distribution.

The rest of this article aims at an amplification and analysis of this summary statement of Pesch's views of the goal of the economy.

The goal of social economy does not involve a full provision for all the wants of all the citizens. To assign such a goal to the economic system would be to demand, in effect, the very disappearance of the “problem of economy” itself. Into the want-system to be provided for by social econ-

³ *Lehrbuch*, 3, 7-8. See also J. Messner, *Social Ethics*, St. Louis, Herder, 1949, 697-98.

⁴ *Lehrbuch*, 1,275ff. See also Pesch, “Produktivität der Volkswirtschaft und volkswirtschaftliche Productivität,” *Archiv für Rechts- und Wirtschaftsphilosophie*, 9 (1915-1916) 227,228,322,323.

⁵ The definition given in the text of the article is a compilation, not a direct quotation. For direct statements concerning the goal of the economy, see especially, *Lehrbuch*, 2,297ff; 3,9-10; 4,121, 321, 328; 5,vii, 369.

omy enter the actual, reasonable wants of the community, wants determined by 1. natural requirements, 2. the character of the attained cultural level, 3. the customary living standards of social classes. (2,287) But only those wants are included that are ethically unobjectionable and whose satisfaction is in harmony with the higher demands of a genuinely human and individual and national welfare. (4,146)

Must Be Humane

Pesch insists that the material welfare which the economy is to make readily accessible to all citizens must be something that can be the licit goal of human aspirations and efforts. (2,293) The "provision process" which social economy is, must be conformed in all its aspects to the requirements of a genuine "cultural good"—that is, one whose realization integrates human personality and promotes the fulfillment of the essential individual and social life-ends of man. (2,292ff.) This involves a consistent observance of standards of hygiene, aesthetics and morals in the market-demand of consumers and in the decisions of firms concerning the "what" and the "how" of economic production. (3,827) The activity of producers "would cease to be humanizing work, if it provided products which were bound to injure the bodily and spiritual health of consumers." (4,315)

True progress in the direction of realizing the goal of social economy, insists Pesch, is conditioned on a consistent respect for the "hygienic principle," the "aesthetic principle" and the "ethical principle."⁶ The sole ob-

servance of the "economic principle" in its usual formulation (the greatest product with the minimum consumption of resources) is not sufficient to assure attainment of the goal of social economy.⁷

Seeks Reasonable Maximum

The goal of the economy according to the thought of Pesch is not simply "any kind" of provision for the satisfaction of the want-system of the community. Implicit in the goal as Pesch describes it is the demand that the legal and institutional context of the socio-economic process be such as to offer to individuals the possibility of attaining the maximum in economic benefits reasonably to be expected from the existing level of economic development. (4,130-31)

The "economic optimum" here involved is, of course, one that is conciliable with a full safeguarding of higher moral and spiritual values. It is not the maximized "optimum" of a purely utilitarian calculus. And it is an "optimum" that is relative, obviously, to the capacities of technical knowledge and productive organization, to the existing funds of natural and human resources, of capital accumulation, etc. But the prescribed goal of social

⁷ Pesch does not undervalue the necessity of "economizing" in the allocation of resources in order to achieve the goal of social economy. Nor is he unaware of the necessity of considering "opportunity costs" in the solution of the "problem of the economy." (See especially *Lehrbuch*, 4,315-16.) But the magnitudes which enter into any formulation of the "economic principle," viz., "product" and "cost," can be defined from the viewpoint of the arbitrary goal of a single economic unit (a business firm, for example) or from the viewpoint of the national community and the objective goal of social economy. Pesch has no doubt that, for the economist, the wider formulation has the greater significance. (See *Lehrbuch*, 2,359ff; 5,20ff.)

⁶ For Pesch's treatment of the "hygienic principle," see *Lehrbuch*, 4,136-45; for his treatment of the "aesthetic principle," *ibid.*, 4,145-46; for his treatment of the "ethical principle," which has a special relevance for distribution theory, *ibid.*, 2,279; 4,180; 5,vii.

economy is not realized when the organization of the economic system is such as to offer opportunities that are at best "second rate," even when assessed in the light of existing — and not ideal — possibilities.

Progressive Improvement

A certain secure continuity, and even a progressive improvement, are also elements in that provision for want-satisfaction which Pesch assigns as the goal of the economy. The material, mechanical and human resources of the national community which serve as the sources of economic production must be maintained and improved so as to make an adequate provision for future wants. (4,131 and 134) Pesch speaks of a provision for the satisfaction of expanding wants and for a satisfaction conformed to the demands of a progressive cultural development. (4,30-31) A constant effort for the refinement of wants and a progressive improvement—quantitatively and qualitatively—of the national standard of living are components in the social purpose of the economy. (2,317)

The actual realization by individuals and families of such a provision for want-satisfaction as described above is what Pesch means by "private material welfare." (4,287-88) The "welfare" element in Peschian thought is not a subjective, vital phenomenon. It does not involve the act itself of satisfying a want nor the subjective condition of enjoyment or "well-being" following upon this act. (4,269) Nor does the "optimum of welfare" for Pesch involve any maximization of a pleasure-over-pain surplus.⁸ Following

in the tradition of Adam Smith and the older Classical economists, Pesch conceives "welfare" objectively—that is, as the availability of goods and services desired by consumers and the actual disposability over these for consumption purposes by individuals and families.

Private Welfare

The attainment of their private material welfare by individuals and private social units, such as families, is a matter of double causation. It must be the *immediate product* of their own self-responsible efforts and initiative. And it is, secondly, the *mediate product* of the public material welfare.

Thus, individuals and non-public social groups have the *direct responsibility* for realizing their private material welfare. (2,289 and 316; 3,826) To allow for self-responsibility, social economy must be organized on a basis of private enterprise and considerable freedom to compete in productive activity and in the determination of one's consumption pattern.⁹ The economic

⁹ *Lehrbuch*, 2,316; 5,123. An economy conformed to the requirements of the goal described by Pesch would certainly be a "market economy" in the sense that its organizing framework must provide opportunity for the consumers to translate their evaluations and wants into an effective action on the "plan of production." (On this point, see, Wilhelm Röpke, *Die Gesellschaftskrisis der Gegenwart*, Erlenbach-Zurich, Eugen Rentsch Verlag, 1942, 161; [in English: *The Social Crisis of Our Times*, Chicago University Press, 1950, 1031.]) But this does not mean that there should be complete "consumer sovereignty" in the context of a distribution of income taken as a "datum." The "plan of production" should be subject to the influence of moral, hygienic and aesthetic considerations, especially those of a social importance. The government may be justified in so influencing, through its economic policies, price relationships (and this the allocation of resources) as

⁸ If one were to attempt to express Pesch's "optimum" in terms of a "maximization" (and perhaps Pesch would not have approved of such an attempt), one might say that it involves a maximizing of the surplus of national material welfare over the social costs involved in its realization.

organization must allow ample scope for the exercise of private initiative in seeking to increase the true social value of one's productive contribution. Opportunity would thus exist to achieve, through a socially beneficial procedure, a quantitative and qualitative improvement in the provision for one's own want-satisfaction.¹⁰ A realization of substantial material welfare for all, but not equalization of real incomes, is involved in the goal of social economy.

Social Group Coordinates

Hence, achievement of private material welfare by individuals and families depends immediately upon their own self-responsible efforts. But private material welfare also depends *mediately*, as was noted above, upon the organization, coordination and supplementation of these individual efforts achieved by the social group banded together to attain the "public material welfare." (2,298) Moreover, the public material welfare consists precisely in the secure establishment and progressive improvement of the whole complexus of social conditions and institutions through which individuals attain the *social* (as contrasted with individual) possibility of securing their private material welfare. (3,8 and 11) A family could live on a desert island—as the Swiss Family Robinson proved—but its private material welfare would be more easily and better secured within the framework of society.

This social framework of law, institutions and services constitutes the

economic "common good" immediately and directly of the organized community. But, as its ultimate goal lies in the realization by (morally) all the citizens of their private material welfare, it is also a mediate and indirect "good" of the individual citizens and their private social groups.¹¹

Must Be Sought

Theories of mechanistic social causation find no acceptance with Pesch. An ensemble of social conditions which will achieve the "public material welfare" cannot develop as a spontaneous and automatic product of many individual decisions based on purely self-regarding motivation. (4,159 and 162) The social milieu capable of securing that welfare is a delicate and complex artifact that must be patiently constructed by intelligent organization, by the wisdom and virtue of men. *Laissez-faire* is not a formula that can serve to organize the economy with reference to attaining its social goal. "Economic and social harmony," writes Pesch, "is not a mere gift of nature, but is a difficult, practical goal, an art-product, which is not spontaneously attained. It must be striven for and preserved by prudence, perseverance and conscientiousness." (2,174) The necessity of conscious regulation

to give effect to these considerations. (On this point, see, Oswald v. Nell-Breuning, S.J., *Sinnvoll geleitete Wirtschaft*, Köln, M. Gladbach, 1929, 15-16.) Also, prudent attempts to rationalize (understood in a wider sense than that of technical economic rationality) and elevate consumer choice are not to be excluded.

¹⁰Messner, *op. cit.*, 703-04.

¹¹See Jean Dabin, "Le Rôle de l'État," *Le Catholicisme Social face aux Grands Courants Contemporains*, Semaines Sociales de France, Lyon, 1947, 348-49. Pesch places the "public material welfare" (*materielle öffentliche Wohlfahrt*) as the immediate goal of social economy. The ultimate goal is "general material welfare" (*allgemeine Wohlfahrt*), i.e., the private material welfare of (virtually) all the members of the national community. He uses the term "national welfare" (*Volkswohlstand*) to designate a co-existence of the public material welfare and the general material welfare—and this forms the integral goal of social economy.

applies to all the elements of the provision process: the allocation and conversion of resources, price formation and income distribution.

Political authority has a serious and direct responsibility to contribute to the establishment, maintenance and improvement of that ensemble of common social conditions which constitutes public material welfare. This is the justification in principle of the moral right of government to intervene, by its economic policy, in the pattern of development taken by the economy. As Pesch notes, the recognition of an objective goal for social economy transforms to the status of practical problems those economic processes of resource allocation, pricing and income distribution which a non-normative economic theory regards as mere "occurring phenomena."

Role of Government

Government must consciously concern itself with the solution of these problems, at least insofar as their solution is affected by that aggregate of social conditions which Pesch identifies with public material welfare. This "welfare function" of government confers on it an extensive competence in the field of economic and social policy, one that far transcends the mere establishment and sanctioning of a set of legal rules putting a check to external violence and fraud. "A moderate influence of the state," says Pesch, "on the shaping of economic life pertains in principle to the sphere of governmental obligations as defined by the natural end of the state." (2,58) The "night watchman" state of Manchester liberalism is anathema to Pesch.

Peschian doctrine conceives of government intervention in the economy as taking place, normally and typically, through policy that stimulates, assists, coordinates and regulates self-responsible private activity and deci-

sion. (2,271) Beyond such action, state intervention, under normal conditions, will not go. The substantive decisions that determine the pattern of development taken by social economy in all its aspects are, as a normal procedure, to be made by producers (firms), resource-owners and consumers in their private capacity as members of the social community.¹²

Limited Responsibility

This is an implication of the principle which assigns primary and direct responsibility for attaining their particular material welfare to individuals and private social units. The "Provider State" and a "politicization" of the economy find no support in the economic thought of Pesch. This does not, of course, mean a disapproval of all intervention by government in the form of public enterprise. (3,849-50)

Government possesses, then, a direct responsibility for contributing to the realization of the public material welfare. But it by no means possesses an exclusive responsibility in this matter. Pesch insists that the individual citizens and their private associations have a serious co-responsibility with government to achieve the public material welfare. Direction of the economy toward attainment of its social goal is not, by any means, a monopoly of government, but is a task of the organized community. (3,826n. and 857) This ordering process must be furthered, not only by the moral conscientiousness of the individual participants in the economy, but also by the organized cooperative efforts of their non-governmental associations, especially the vocational groups.

¹²Pesch, *Liberalismus, Sozialismus und christliche Gesellschaftsordnung*, 1,484. See also Messner, *Die soziale Frage der Gegenwart*, ed. 4, Innsbruck, Verlagsanstalt Tyrolia, 1934, 501.

Self-Control Needed

Pesch believes that the creation of an apt framework of law, institutions and services is a necessary condition for the proper ordering of social economy. But he also insists that it is not a sufficient condition. (3,100) "External bonds," he says, "are insufficient without the interior bond of moral duty. The best economic organization remains ineffective, if men themselves are bad." (3,99)

The decisions of the individual participants in the economy must reflect a high degree of moral conscientiousness, if true progress is to be made toward attaining the goal of social economy. (2,280) For example, the social consciousness and individual morality of producers must be counted upon heavily to achieve adherence to standards of hygiene, aesthetics and morals in production. (4,170) Again, the consumption standards of the community are a decisive influence on the allocation of resources made in private enterprise economy—that is, the regulation of production becomes largely a matter of the regulation of consumption. But the substantial regulation of consumption is precisely a regulation which "*the consumers must execute for and by themselves*, a regulation guided by reason and morality." (4,192; emphasis added.)

Groups Have Function

Pesch speaks of the vocational groups as a third regulatory agency in the process of ordering social economy in the task of attaining its objective goal. (5,vii) A sector of the economy (e.g., the basic steel industry) organized into a vocational group must work out and administer a set of common rules apt to serve as adequate controls on its activities from the viewpoint of safeguarding the public material welfare. Government should aim at stimulating

and assisting such organized cooperative efforts and should not seek to monopolize the creation and administration of economic controls. In Peschian doctrine the ordering of the economy is to be expected principally from the regulatory framework created by the vocational groups and only in a supplementary way from the activity of government. Regulation by the central political authority becomes superfluous precisely in the degree to which an organized sector of the economy imposes upon its conduct social controls adequate for safeguarding the public interest. (4,275n.)

* * *

Pesch's *Lehrbuch* is substantially economic theory, not policy. But Pesch is concerned with a structure of theory that is geared to enlighten policy decisions. (3,70n.) He frequently points out the important implications for economic policy of the fact that there exists an objective goal for social economy. This fact imparts a vital *social* character to the component elements of the economic process: the production structure (allocation and conversion of resources), price formation and income distribution. These now become in a significant sense "national economic problems" and should not be regarded as matters of a purely private concern. For this reason, too, their solution may not be left to the exclusive arbitrament of mere market or power relationships. (4,149; 5,557-58 and 578)

The true "rationality" of the existing economic organization is to be assessed in terms of its effectiveness in attaining the goal of social economy. (5,778) The functioning of the economic system and the acceptability of particular public policies, must be evaluated from a *social viewpoint* that is superior to the viewpoint of private, individual profit. (3,10 and 18) Such

factors, therefore, as freedom of economic enterprise, freedom of competition and private gain-seeking lose that absolute character which they acquire in any scheme of economic organization which elevates them to the position of supreme regulative principles. In Peschian doctrine they find their justification, security and limitation in their true character of being serviceable—indeed, necessary—elements in an economic organization apt to achieve

the goal of social economy.¹³ But they are not in themselves either absolute goals or adequate organizing principles for the economic system. (5,558)

¹³With regard to the importance of private gain-seeking as a motive force of economic activity, *Lehrbuch*, 4,214-15; concerning the importance of economic liberty, *ibid.*, 3,77-78; 870-71; for the social importance of competition, *ibid.*, 3,89-90, 93.

Economic Incentive

Striving for gain, regulated and kept within bounds by ethical norms, is not only justified in itself, but is also *necessary for the welfare of the nation*. Provision for the needs of all the people can only be something advantageous and progressively satisfying through a suitable capital formation. Every sound progressive development of the national economic process presupposes the presence of wealth, even of great wealth.

PESCH, *Lehrbuch*, 5,695.

Father von Nell-Breuning, who has written the outstanding commentary on Quadragesimo Anno, discusses the question of interest as Pesch developed it.

THE PESCHIAN INTEREST THEORY

Economic Performance Justifies Interest

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DURING the quarter of a century which has elapsed since the death of Heinrich Pesch, economic theory has made very marked progress. Treatises published by Pesch's contemporaries—and his own works as well—today seem somewhat crude and definitely dated. But we cannot get a true estimate of the stature of a man like Pesch by comparing his works with the present development of economic science. To appreciate Pesch properly, we must ask: what did he contribute to the foundations upon which his successors have built and are building?

Caused Significant Advance

This article is limited to discussions of Pesch's contribution to the theory of interest. To appreciate the significance of that contribution we must avoid comparing his theory of interest with what modern economic science is able (and also unable) to state concerning the phenomenon of interest. On the contrary we must inquire: what did economic theory, especially in Catholic circles, know about interest *before* Pesch—and what was the advance made by Pesch?

We shall see that his contribution was decisive. Pesch laid the foundation for later progress. We can also say: he opened a door through which Catholic economists could advance to the solution of related problems.

To us today interest on a loan is but a special case of the general phenomenon of interest on capital and not even a particularly engrossing special case. In the lifetime of Heinrich Pesch the situation was quite different: interest on a loan was the prototype of interest; interest on capital—as far as it was not interest on a loan—appeared either as a debased form of loan interest or as profit. The clear distinction between *Kapitalrendite* (imputed interest), *wages* of management (remuneration of the entrepreneur for the work performed by him, as, for example, the salary of a hired manager), and entrepreneurial *profit* in the narrower sense (the result of the entrepreneurial faculty of combining resources in cost-reducing combinations, as well as the remuneration for risk bearing, that is, for assuming liability for loss in the case of failure) had not yet appeared. The idea of imputed interest, which was developed by the modern science of business, was unknown to Pesch.

Moral and Economic Problem

The problem with which Catholic scholars throughout the centuries before Pesch were concerned was the question about the permissibility of interest, a question, in other words, not primarily economic but ethical. But it is clear that the moral permissibility of interest can be determined only with

reference to its economic nature. Even though attention was primarily directed to ethical permissibility, this problem demanded the investigation of the economic nature of interest.

Better to understand the content and significance of Pesch's contribution, we must outline the state of research in the theory of interest before Pesch's writing appeared.

Titles to "Interest"

The classical canonical theory of interest which prevailed through the centuries held that:

1. The loan contract (*contractus mutui*) entitles one to receive back only what has been given as a loan; interest based on the loan as such (*ratione ipsius mutui*) cannot be justified.

2. Reasons may exist in connection with the loan contract, though independent of it, which entitled the lender to demand in addition to the return of the object loaned a surplus (*auctarium*); such reasons are in particular:

- A. In granting a loan, the lender runs a risk of not receiving back his loan through inability or unwillingness of the debtor to pay; the lender, therefore, may claim a risk premium that offsets this danger. The ancients called this reason, *periculum sortis*—the risk of loss.

- B. By lending money or anything else to another, the lender not infrequently acts against his own interests.

- a. It may be the case that the lender actually suffers some positive loss—for example, he may be unable to acquire a necessary object at the right time (such as, a car) because he must wait until the money loaned has been repaid. In the meantime the lender to his disadvantage lacks the necessary object. Moreover, when repayment of the loan has been made the object may have become more expensive. Here positive loss for the

lender is occasioned by the loan. For this damage the lender can claim compensation from the borrower because it was incurred in the borrower's interest. The ancients called this title to interest, *damnum emergens*—consequent loss.

- b. It may also be the case that the lender does not actually inflict a loss upon himself, but that he misses a profit which he could have made with his money had he not loaned it to another. As far as this profit was not merely an uncertain possibility, or hope, but was a definite and certain opportunity, the loss of this profit is equivalent to damage. For it the lender may claim compensation from the borrower. The ancients called this title to interest, *lucrum cessans*—interrupted gain.

Payment for My Loss

In both these cases the lender acted, as mentioned above, against his interest by making the loan. I, as lender, in such circumstances may require from the borrower what it is worth to me (*quantum mea interest*) not to lend my money, but rather to have it at my own disposal. In the French *intérêt* and the English interest, the echo of this justification of a surplus in addition to the amount loaned lingers to the present day. (The German word, *Zins*, has quite different linguistic roots, stemming from the Latin *census*.)

This surplus which the creditor may claim from the borrower on any of the above titles—*periculum sortis*, *lucrum cessans* and *damnum emergens*—in the language of modern economics is no longer called "interest;" or at least we distinguish pure interest for payments from risk bearing, administrative costs, and so forth, which have nothing to do with interest as such. However, both in ordinary language and in business practice these payments are given the name "interest"—and a higher interest is demanded on a loan to an uncertain

debtor than on a loan to a thoroughly reliable borrower, a solvent borrower, for example, whose credit rating is excellent. A state with sound fiscal policies receives loans at much lower "interest" than a state which is drifting toward bankruptcy or has proved in the past an unreliable debtor. All this, of course, has long been well known.

Pesch's Contribution

Pesch introduced the following significant and decisive consideration. The three titles, or reasons, mentioned earlier (*periculum sortis*, *lucrum cessans* and *damnum emergens*) justify interest only from case to case and always at a different rate, depending upon whether the risk is greater or smaller; whether the loan occasions a loss or renunciation; whether this loss is greater or smaller; or whether it entails loss of a greater or lesser opportunity to make a profit. These reasons, therefore, cannot explain the *uniform* rates of interest which we observe in the market. How, Pesch asked, can these uniform rates of interest of the market be explained?

Interest as a *market price* was the phenomenon whose significance Pesch recognized and to which he directed his attention. His question was still, of course, the original one about the moral permissibility or justification of interest. But, to answer this old question: "How can interest be permitted?" a preliminary question now had to be answered first: "How is the interest rate set in the market?" Everything else depended upon the answer to this question.

Market Sets Price

If the money and capital markets operate perfectly there can be no question about creditors practicing usury against debtors: this is possible only where the market is rigged by those who possess economic power. In a perfect market the rates of interest are

formed by the free interplay of supply and demand. How do the seekers of money measure the interest they offer? Today we have more elaborate answers to this question than Heinrich Pesch was able to give, but what today is expressed in more elaborate and technical language was first introduced into the discussion by Heinrich Pesch. His manner of expression was crude, but in handling the matter itself he made decisive progress; the breakthrough was attained.

Pesch has recognized that the explanation could not be found in the loan contract (*contractus mutui*). This the ancients had proved with invincible logical necessity—this was unshakable. Neither could the explanation be found where the ancients had sought it, namely in those so-called "extrinsic titles to interest" (*tituli externi*) which they introduced. These could only lead, in every single case, to an individual rate of interest. Hence, they were wholly inadequate for explaining the uniform rates of interest which prevailed in the money markets.

As soon as one speaks of reimbursement for a damage or for the loss of a gain, individual considerations immediately come to the fore. If it were a matter of determining the damage or the loss of gain caused, for example, by a flood, we could not make a general appraisal applicable to all who suffer damage. We would have to determine in particular for each individual the amount of damage and [of the potential] gain lost. These considerations lead to no market price for the interest return; but modern interest appears in the form of a general [uniform] price. (*Lehrbuch*, 5, 729)

Saw Economic Action

How then shall we proceed? Not from the loan *contract* of jurisprudence but from the loan *transaction* of economic life. Pesch disengaged credit transactions from the juridical vestments with which, until his day, they had usually been clothed. He gave his attention, as a genuine economist, to

the credit transaction as an economic process.

Pesch observed that in our modern economy granting credit is synonymous with *placing economic power at somebody's disposal*.

The real possibility of making a profit was caused by the mere availability of greater monetary capital; and this availability is caused or brought about immediately by the lender's act of granting a loan. Thus the lender brings about the possibility of making a gain, which in the new circumstances is *per se* bound up with the availability of a greater money supply, according to the old principle: "*causa causae est causa causati*." (*Ibid.*, 5, 727)

This act, of making available an economic potency, is an economic service, and as such it is worth its price just like any other service.

Equal to Capital

When a corporation is formed, one of the organizers may bring into it a going concern, an already operating establishment; another of the organizers may make a cash payment in exchange for a share in the corporation; a third may acquire bonds of the corporation, that is, he makes a loan to the corporation. Wherein lies the economic potency of the newly established firm? Not merely from bringing the "establishment" into the firm; nor merely from the money made available by purchase of stock; but also from the lender who had credit at his disposal and who by the mere purchase of the corporation's bonds made this credit available to the enterprise. This loan to the corporation is a contribution to the building up of the economic capacities of the enterprise.

In our present economy granting credit is juridically different from leasing a house, an estate or a factory. But from an economic viewpoint it is the same phenomenon—the holder of a property makes it available for another's

use. In the one case the property has a concrete form (rent, lease) in the other case it has an abstract form (credit).

Theory of Economic Service

It was not Pesch but others who named his theory of interest, the theory of "Economic Performance or Service," but Pesch accepted the description. In a market which is not distorted by power manipulations, this performance or service is evaluated according to its objective—that is, its generally valid—value. Hence the rates of interest formed in this market constitute the equivalent return for the service rendered; they accord with the general principle of justice in the economic field, with the principle of equivalence between performance and return (principle of equivalence). Hence they are to be recognized as economically *right* and morally *just*.

The economic development of the last 25 years has advanced far beyond Pesch. But the basic thought of his "theory of economic performance or service" pertains to the present economy just as much as it did to the economy he knew, whose phenomena he investigated and whose laws he penetrated. Jurisprudence still clings to the old, long inappropriate vestment of the *contractus mutui*; and the old language—even that of professional economists—still speaks just as absolutely of *intérêt* or "interest."¹

¹ The author of this article tried to develop further and complete the theory of interest of Heinrich Pesch while the master was still alive, in his article "Kredit und Zins," *Stimmen der Zeit*, 108 (1924) 173-184; later in his contribution "Zins" in *Staatslexikon der Görresgesellschaft*, ed. 5, 5 (1932) columns 1600-1624; and recently in his book, *Zur Wirtschaftsordnung*, (Herder, Freiburg, 1949), chapter "Zins," columns 175-204. Ed.

A leading Peschian exponent examines his socio-economic thought in the light of philosophical systems which underlay economic systems of his contemporaries.

SOLIDARIST ECONOMICS

Philosophy and Socio-economic Theory in Pesch

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PESCH IS FAR from sharing the repugnance for philosophy manifested by economic theorists of his and of our day. This repugnance is especially evident when there is question either of the special methodology or of the purpose of socio-economic science. Unlike philosophy, the science of economics makes no attempt to reduce observed reality to its causes, much less to its ultimate causes. On the contrary, contemporary theory professes to be extremely modest. It is satisfied with putting the facts—more properly, the phenomena—in logical order for the purpose of description.

However, this effort at organization makes necessary some conceptual instruments for reaching generalizations, and the result is that social scientists talk of "laws," "functional relationships," "long and short cycles," "equilibrium" and "circulation." In all this, however, there is no attempt at a causal or functional explanation of economic reality. The effort is rather to elaborate a logically coherent system of propositions, based upon the supposition of some fixed point of experience. Indeed, to such an extent is inner logical coherence the precise object of economic theory that it can equally well start from actual facts or from hypotheses.

Imitate Natural Sciences

Pesch was right in attributing this preoccupation with logical coherence to the controversy over methodology in which the school of Carl Menger en-

gaged with Gustav Schmoller some 50 years ago. Menger's approach to economic theory has always been called the natural-science approach. From his time the method of his school has followed the physical sciences through every change in their method and objective, beginning with causal reduction to ultimate, simple, quantitatively intelligible elements, later attempting merely to report the functional organization of such quantities and finally arriving at mere logical coherence as a means of description. Economic techniques have followed the physical sciences from their original ideal of direct observation (which in the natural sciences is the experiment; in economic science is the "isolating process") to the most exalted idea of transplanting mathematical abstractions into the science of economics (retaining, nevertheless, the effort at observation).

Pesch attended Schmoller's lectures in Berlin and followed with lively interest his controversy with Menger and other representatives of "pure theory." In general he agreed with Schmoller and other exponents of the historical school who asserted that the abstractions of pure theory would not simplify the knowledge of economic reality but would steadily recede from that reality. Economic reality is not a natural phenomenon in the same sense as in the physical sciences. It is a human and social phenomenon which includes purposes and value-relations. It is developed by numerous motives from all

spheres of human existence. Finally, economic reality could not be fixed into a static system; it is always flowing, is always an individual and never a calculable phenomenon.

Cannot Find "Laws"

But precisely this last assertion which emphasizes the historical character of economic life and emphasizes its qualitative, rather than its quantitative, aspect revealed the weakness of Schmoller's own position. If that is true, how was it possible to speak of "laws" and regularities of the economy and to apply to it—as the historical school did—generalizing considerations. To be consistent, would not the methods of the historical school, just as much as those of the natural-science school—end with a methodological renunciation of the knowledge of reality? Would not either school reduce economic science to an effort at putting facts into a logically coherent system? Consistency demanded this result if it was not to devolve into mere chronicling.

Pesch clearly saw in this instance of methodological controversy the philosophical problem in socio-economic theory. He saw, too, that the methodological controversy could be solved only by philosophy. Despite its conscious rejection of philosophy, despite its talk about "pure being" and especially "being, free of value," and its attempts to reduce theory to mere facts, positivism of this kind implied a complete metaphysic just as soon as a justification of its method was attempted. The mere establishment of a "pure fact" already involved an interpretation which is impossible without a recognition of both the general and the particular and the necessary and the contingent as real categories.

A metaphysical assertion was made at the very outset when "being" as the object of theory was confined to the quantitative, and the qualitative was excluded. Such a theory could be justi-

fied methodologically only by the philosophy of nominalism and materialism.

* * *

But Pesch was to encounter a more formidable opponent than positivism, with its weak and concealed metaphysic. When, at a convention in Vienna, Philippovich, an economist of considerable stature, explicitly acknowledged the importance of Pesch's concept of objective goals for the economy, Max Weber entered an almost passionate protest against any goals and purposes, against any value-judgments in socio-economic theory on the grounds that its scientific character must be kept immaculate.

Theory, said Weber, should deal with nothing but "pure being," by which he meant that only quantitative propositions and judgments are involved. As a matter of fact Weber had long ago committed his unquestionably great scientific authority to the proposition that philosophy was the only possible means for settling the methodological controversy in the social sciences. But his was a philosophy exclusively of the act of cognition, devoid of metaphysics or ontology, either of the subject or of the object. It was neo-Kantian Transcendentalism that considered philosophy as nothing but a methodology whose only role was to establish the possibility of scientific knowledge. This knowledge was to be examined for its intrinsic consistency; every truth must be checked for its conformity with this consistency. In Kantian idealism the point of departure was not a concrete, personal knower, but a transcendental subject, the subject of scientific knowledge itself.

Eliminate Experience

The logical consistency of knowledge stems from its spontaneity, which is not determined by any object. The only necessary task for philosophy is correctly to determine the fact of this spontaneity. The fact that such spon-

taneity will produce a generalized proposition is evident to all neo-Kantians. But neo-Kantianism attempts so to interpret the Kantian doctrine of the exclusively synthetic activity of the subject as to eliminate the last vestiges of the influence of experience—and consequently of concrete, individual reality, both of which Kant had somehow retained. On this point Max Weber allies himself with the Marburg neo-Kantians (Cohen, Natorp, Cassirer).

The spontaneous act of the transcendental subject is intellectual, emphatically logical and hence, mathematical. Accordingly, the "pure being," which is its cognitive projection, can only be concerned with propositions and judgments which have quantitative content. Consequently scientific knowledge aims at a logically and mathematically coherent system of such propositions—not at cognition of reality. Consequently also, any single proposition or judgment will always be provisional because the presently-formulated totality of the logical-coherent system remains open. That is, it can never attain to the ideal limit of the absolutely valid logical coherence of all possible propositions.

Pesch Advocates Realism

Pesch believed that a "pure economics," based methodologically upon neo-Kantianism, is unacceptable as a socio-economic theory to anyone whose theory of cognition is critical realism and whose metaphysic is founded upon a philosophy that has developed from the time of Aristotle through the great scholastics to our own day. The fact that no other philosophical basis has been sought for "pure economics" since Max Weber's time may give pause to anyone who accepts Pesch's philosophical system but inclines to the methodology of pure economics.

Besides, there are the present-day philosophical trends against Kantianism. One of these is phenomenology,

which at least challenges anew the basic thesis of the spontaneity of the subject in the act of cognition. In the natural sciences there are the recent developments which make rough sailing for the idea of "pure being" as something exclusively measurable and calculable.

Even in economics the growing preoccupation with problems of "dynamics," especially those of the theory of business cycles, and the concentration of theory upon reality in its concrete-individual and historical aspects have rendered more and more questionable the epistemological restriction of pure economics to mere logical system-construction. The large number of studies on economic equilibrium, which is a favorite preoccupation of mathematical-functional theorists, are characteristic of this trend.

All Acts Personal

In his polemics against pure economic theory founded upon neo-Kantianism Pesch insists that its "pure being," free of all value elements is an abstraction to which the adage, "abstraction is not falsification," cannot correctly be applied. The reason is that such abstraction destroys the very essence of the economic act, which is a spiritual reality. It is spiritual because it originates in the personal being and value of men, because it is a vital act of the inalienably proper person of man and to that extent is similar to other vital expressions of man, such as religion, science or art.

Because of this personal-spiritual origin of the economic act, the entire economy is objectively informed by a spiritual intention, a purpose. Pesch defines this purpose as the enduring production and distribution of means for satisfying material wants which is the indispensable foundation for the preservation and perfection of the entire personality of human beings. Unlike Othmar Spann who, under Hegel's influence, rejects the efficient cause, Pesch

uses it in his economic system. But he subordinates it with intrinsic necessity to the means-end category.

Rejects Abstractions

Pesch likewise rejects the impersonalism of pure economics which the "pure theory" crystallizes in its basic hypothesis of the "economizing principle" and in its abstraction of the "economic man." This impersonalized "economic rationality" corresponds methodologically to the transcendental subject of the neo-Kantians. He insisted, too, upon the concept of economic value. This derives from the capacity of goods and services to achieve the goal of the economy, as it was defined above.

Hence the economic value of a good or service is both qualitative and quantitative. So true is this that if either of them is removed, both aspects of economic value lose their meaning. For, while the economic act springs from the mind of a personal, *spiritual* being, it is also connected with the bodily-material existence of man in his interior and external world—all of which is time-bound and space-bound. Consequently they involve the quantitative, the extended, the numerable.

Both of these aspects—and this is one of his greatest merits—have their place in Pesch's theory. But the latter (the quantitative and mathematical), even though it is a constitutive element, is never by and for itself. To isolate it into an autonomous element, either by substituting price for value or by considering cost-value or utility calculus, necessarily deprives the economic act of its essential character, namely, that it is a human-personal phenomenon. Such an isolation reduces it to a mere price relation or to a bio-mechanical process of energy expenditure or to the psycho-physical arena of experience.

Role of Philosophy

Consequently the relation of philosophy to socio-economic theory according to Pesch would be as follows: philosophy — even ethics — can never supply economic knowledge or judgments to the science. But philosophy alone can substantiate the basic concepts of theory and ascertain and prove their epistemological rightness.

On the other hand, economic science, like any other empirical science, through its cognition of reality supplies a necessary contribution for philosophical knowledge of the *essence* of things. Pesch knows that the philosophical cognition of essences is often the result of laborious effort. This effort, which penetrates from the exterior of things to their inner reality, requires observation, insight into properties, reasoning and the principle of sufficient reason.

Based on Evidence

A well-known critique, entitled, *Die Sozialmetaphysik der Scholastik*, overlooks all these points, notably the fact that to Pesch and his school cognition of the *essence* and cognition of the physical form (*natura specifica*) of things are not identical. Since they are not the same, the "openness" and "non-rigidity" of knowledge in economic theory is no obstacle to the philosophical method.

For example. As far as the judgments of economic ethics are concerned, their degree of certitude depends absolutely upon the degree of certitude in the knowledge derived from economics. For Pesch, whose philosophy is realistic, stuck faithfully to the proposition that in the field of economics nothing can be deemed ethically good or ethically necessary which theory finds economically unsound.

Take the case of those basic principles, such as the right of property, which are immediately or more or less immediately recognized and which are

intrinsically adapted to the organization of reality. Our knowledge of the essence and significance of these principles is deepened by their repeated application, and philosophical cognition is enriched through corresponding empirical sciences, such as history and economics. (Mistakes can occur here, too, as, for instance, when one attempts to explain the constancy of men's behavior in society, despite freedom of choice, by applying the statistical "law of great numbers." At best this gives a description, not an explanation.)

Personal and Social

From our presentation it will appear that Pesch cannot consider social events to be operations of mere individuals acting upon each other, as mechanistic individualism asserts. On the other hand, he cannot join company with Othmar Spann and regard such a process as a social totality which resolves itself into individual acts. Rather he must consider each phenomenon as the act of individuals insofar as they perform it with a view to some identical objective (*finis operis*), for example, the economy. The reason, of course, is philosophical. If, for example, a market society is explained in a mechanico-individualistic way, as the result of the pressure of costs on all individuals, this would be in contradiction with the interior unity of society. And on the other hand, when priority is given to the social totality, as in the thought of Spann, only Hegel could establish an ontological foundation for such a reality. Neo-Kantian attempts to do this (as those of M. Adler and Natorp) neither Spann nor Pesch likes.

For Pesch's critical realism and his philosophy of being, the social can only be established in the following way. Individuals are human persons, subjects (bearers) of the same metaphysical human nature by reason of which all persons are ordained to all values pertaining to humanity, includ-

ing economic values. This identity of relationship establishes between all persons a bond of mutual recognition of personal value. Moreover, since all persons are limited in their capacities and are individually-qualitatively different, there is need for the relations of giving and receiving, the relation of exchange in all efforts to achieve human values, — including economic.

Principle of Solidarity

For Pesch, then, the essence of the social is this ontologically-established "principle of the co-existence of human beings as persons." This, moreover, is his principle of Solidarity.

From this principle, too, stems with intrinsic necessity, the organizing development of human social life in its essential and contingent elements, such as, marriage and the family, the institution of private property, the state as guardian of the positive legal order required by the value and rights of man. Pesch has called these three institutions the "pillars" of economic society. Economic society itself he considers as an essential part of the vital activity of a nationally united people. Its objective (*finis operis*) is the material welfare of the people, and this is nothing but a sociologically formulated statement of the economic value which we considered above.

Least of all can Pesch be identified with "personalists" of the existentialist persuasion. His concept of person is completely immersed in the essential order of being and of social life.

Thus his solidarist economic theory has always been a protest against any theories which attempt to "organize" the economy a-prioristically, according to this or that rationalistic hypothesis. This is important today when rationalist planners and managers proceed as if they were working with a *tabula rasa*. Neo-Kantian economic theory, as was clearly recognized by Pesch, cannot direct economic policy.

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Worth Reading

"U. S. A. The Permanent Revolution," *Fortune*, February, 1951.

"There come times in the history of every people," says *Fortune*, "when destiny knocks on their door with iron insistence." For the U.S.A. it knocked first when we won our independence and became a people. It knocked again when we preserved our Union. It is knocking today.

Leadership in a great moral struggle has been thrust upon us. In the past we joined allies in grave contests. But on those occasions the issues had been framed, the policies had been adopted, the patterns made before we shouldered arms. Today the shape of the future depends upon us: "our moral decision, our wisdom, our vision, and our will." We must develop a policy worthy of the leadership that has been thrust upon us.

Such a policy, *Fortune* thinks, requires a profound understanding of the American Proposition; of its roots, how we have applied it, and what we can make of it. To an examination of this Proposition *Fortune* has devoted the February issue.

Part I is a statement of the American Proposition: Man is created in the *image* of God. "Since every man is thus of God, every man is *equal* in the sense that no man can claim that he is more important to God than any other man." His "unalienable" rights of life, liberty, pursuit of happiness among others—are God-made and natural, not merely political rights. And this proposition is universal; it claims these not for Americans, but for all men.

Part II examines how Americans have applied this proposition in business, politics, labor and community citizenship. The articles on American capitalism and labor are excellent summaries of development and present state. Part III looks at some of the major problems which now confront us and tries to find some solutions in keeping with the highest ideals of our tradition.

Fortune has performed a great service in opening up this discussion of principles and policy. Current talk of democracy, freedom, forms of government is painfully thin and inadequate. It deals with form. If we are to meet the challenge of leadership we must build on truth and substance.

Johannes Messner, "Freedom as a Principle of Social Order," *The Modern Schoolman*, 28 (January, 1951) 97-110.

Professor Messner, author of *Social Ethics*, explains in this essay the basis of the subsidiary function of the state.

The state has both direct and indirect competence with respect to social order. Whatever be its action, the purpose is always to serve as an aid to man in his work of self-fulfillment. The universal social good (the common good) is to be a help to man; to supplant his personal work is to defeat the purpose of both state and man.

To achieve maximum social good, moreover, the state will do best to give widest possible scope to the incentive of self-interest, since no other motive can move man to such rich achievements. When the state curbs incentive and the creative aspiration of man, instead of serving as a subsidiary to these tendencies, less, rather than more is achieved.

Man will achieve his personal end best by social, as well as by individual action. "Man's self-fulfillment is radically foiled if his social impulse . . . is deprived of any active and constructive part in shaping the life of the community, political as well as industrial."

The tradition of subsidiary function is an ancient one; its prominence today results from the increasing threat of statism. In the 19th century, when individualism was the prevailing philosophy, emphasis was needed upon the idea of the common good. Today the correlative idea of subsidiarity is crucial because man and his perfection are in danger of being lost in the mass.

Professor Messner's essay highlights a neglected aspect of subsidiarity. The principle has ordinarily been stated in such a way as to place responsibility for action upon the lowest possible social group. This article clearly indicates the reason behind the principle and the state's aiding role.

The entire topic is closely cognate with the socio-economic philosophy of Father Pesch, which is discussed in this issue of *SOCIAL ORDER*. Subsidiarity has a prominent place in his social system, and for precisely the same reason as in Messner's: The self-fulfillment of man.

Heinrich Pesch Number

This issue of SOCIAL ORDER is devoted entirely to the socio-economic thought of the great German scholar, Father Heinrich Pesch, S.J., in commemoration of the twenty-fifth anniversary of his death on April 1, 1926.

The six authors who have written for the Pesch number are: Rev. Gustav Gundlach, S.J., Gregorian University, Rome; Rev. Oswald von Nell-Breuning, S.J., *Stimmen der Zeit*, Frankfort, Germany; Professor Goetz Briefs, Georgetown University, Washington; Professor Franz Mueller, College of St. Thomas, St. Paul, Minn.; Rev. Jacques Yenni, S.J., Loyola University, New Orleans, La.; and the special editor of the Pesch number, Rev. Richard E. Mulcahy, S.J., University of San Francisco.

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